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# POLITICAL SCIENCE QUARTERLY

## THE BRITISH WHITE PAPER

*Economic Survey for 1949*

### I

THE White Paper of March 1949 [1] is perfectly summarized in the concluding paragraph: "This Survey has sought to set out plainly the prospects, good and bad, and the tasks, difficult as they are, which face the British people and their Government in 1949. If this account is correct, and we can achieve the tasks described, we should in the present year consolidate the gains of 1948, and take a firm step towards *the paramount aim of economic independence*" (italics mine).

Economic independence—release from the necessity of relying on American (and Canadian) aid and "assuming among the nations of the earth an equal . . . station" (to quote another historic declaration)—is the theme of the *Survey*. Economic independence, not in 1952, but earlier—possibly by the end of 1949—is the paramount aim. This theme is repeated frequently and explicitly; and, one way and another, pervades the entire Paper.

### II

The *Economic Survey for 1949* runs to only 47 pages plus an appendix of 16 pages. Its American analogue, "The Economic Report of the President" with "The Annual Economic Review: January 1949" by the Council of Economic Advisers,

[1] *Economic Survey for 1949*. Presented by the Chancellor of the Exchequer to Parliament by Command of His Majesty. March 1949. Cmd. 7649. London, His Majesty's Stationery Office, 1949. 63 pp. 1s.



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runs to 140 pages. The two might profitably be compared, for similarities of factual content, differences in the form of presentation, and contrasts in economic anxieties.

The *Economic Survey* is divided into three sections. Part I, "Progress in 1948", is a rapid review of the year. The labor force increased but 2 per cent; production rose 12 per cent above 1947; exports rose 25 per cent above 1947; imports only 4 per cent; investment was increased; and there was an "appreciable improvement in consumption." "In the latter half of the year, exports and reexports were sufficient to pay for over 90 percent of imports, compared with 70 percent in 1947, and a little less in 1938." The overseas deficit in 1948 is provisionally estimated at only £120 million, and for the last half of the year there was "probably" a small surplus on current account. "But the overall figures conceal the gravity of the Western Hemisphere deficit. This deficit was practically halved in 1948, but it was still nearly £350 million." "This deficit, which is now the worst danger spot in the economy, was met in the first half of the year by drawings on the United States and Canadian credits, and later by receipts of £170 million under E.R.P."

"To sum up, 1948 was a year of substantial progress.... But great as it was, this economic advance pointed to no early and complete solution of the country's problems. The position is still dangerous...."

After this somewhat grim conclusion of Part I, the reader is quite prepared for the opening sentence of Part II, "Prospects for 1949": "It is impossible to expect that 1949 will improve on 1948 as markedly as did 1948 on 1947." Reconversion has been completed; working stocks rebuilt; but there will be no considerable augmentation of the labor force. "Future progress will result from technical progress, new capital equipment, improved organisation, steadier and more productive work...." There is still one major uncertainty (the possibility that E.R.P. assistance might not be forthcoming, or might be materially reduced) and one caveat ("All statements in this Survey about 1948 assume the continuance of present defence policies"). The forecasts of production are restrained: coal and steel might be up on the order of 5 per

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cent; electricity will still be scarce; increases are hoped for in textiles but not predicted very confidently; and little change is anticipated in agricultural output. The investment program is to be stepped up slightly; and the export target is lifted to 160 per cent of 1938 (volume). All these forecasts run about 5 per cent above 1948; and are highly qualified. In 1948, for example, realized exports exceeded the forecasts by about 5 per cent. "The limitations on exports in 1949 fall into three categories. First, there are difficulties of supply on our own part. . . .Secondly, there are the restrictions which other countries . . . place on the entry of a wide range of consumers' goods. . . .Finally, there are the difficulties of finding buyers at our present selling prices."

But, as was remarked earlier, the urgent problem as it had developed by the end of 1948 was not in the aggregate of production nor the aggregate of foreign trade. The problem lay in the fact that the surplus of exports to certain areas could not be balanced against the deficit with the Western Hemisphere, partly because the surpluses derived from Britain's own contributions to European recovery, partly because some goods represented a withdrawal of previously blocked sterling balances; partly from investments in the colonies and other parts of the Commonwealth.

This abbreviated summary of the analysis of Part II leads to Part III—"The Tasks for 1949". Four major policies are enumerated:

1. To expand in 1949 sales in the United States and Canada.
2. To increase production, especially of coal, steel, textiles and agriculture.
3. To bring down costs, especially of exports.
4. To continue "the battle against inflation", specifically a "disinflationary" fiscal program.

* * *

The summary here given is an incomplete and far from adequate outline of a text which itself is so condensed as to be almost skeletonized. The outline may be formulated as follows: gross national product equals domestic consumption plus domestic investment plus exports. Gross national product is limited by manpower, now fully employed. The entire situ-

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ation is presented in terms of the classical definition of economics as the distribution of scarce means among alternative ends—indeed, in this instance the total means are so deficient that they are distributed viably only with the supplement of E.R.P. Ideologically, this does not remind one of Keynesian analysis.

III

To the American reader, there are some surprising omissions. Of these, three may be enumerated as illustrative. There are only two specific references to price as an economic consideration. These were both mentioned above—the statement that some exports were not "finding buyers at our present selling prices," and a later policy statement: "we must seek continuously to bring down costs, particularly of exports." In the *Survey,* there is the reiterated determination to increase sales in the United States and Canada; in fact, current sales are small; and in common gossip, both in the United States and in Canada, there is the widespread allegation that British prices are out of the reach of American customers. The writer has no means of verifying or disproving this common gossip. But the simple fact remains that British merchandise is not on sale in American or Canadian shops, in spite of the obvious desirability of Britain's "Selling American", and, I believe, a reciprocal American and Canadian willingness to "Buy British". The complete silence of the *Economic Survey* on this aspect of the dollar shortage is, to me at least, a serious omission.

Perhaps equally surprising is the absence of any reference to the exchange rate. As to this, oddly enough, the national positions seem to have become transposed. American economists have, until recently, been dogmatic supporters of fixed exchange rates, and British economists proponents of flexible rates. Currently, British theory and practice cling to the $4.00 pound; and American commentators have been rather vociferous advocates of sterling devaluation. Having no basis for an independent opinion, the writer is willing to be persuaded that the American advocacy may have oversimplified the merits of devaluation; but he is equally unconvinced by the frequent British argument against it—namely, that Britain has

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no difficulty in finding buyers for all the exports it can ship. Further, at the very time the White Paper appeared, there was a good deal of comment in the American press on the quantity of sterling available in the American market at a rate well under $3.50. Admittedly, this is a topic which an official publication might not touch except with circumspection. Still, complete omission is notable.

A third omission will be remarked by the American reader. Not many years ago, no such survey could have been imagined without a substantial section on money rates, banking and credit policy; and a section devoted to questions of inflation (or disinflation) would have included extensive dissertations on money and banking. In the current *Survey,* the entire subject is dismissed with a single sentence: " Continued restraint in the provision of credit is desirable if investment is not to be excessive."

## IV

To the American reader, the *Economic Survey* still leaves a residue of unanswered questions. Far from a criticism of the White Paper, this statement is intended to be a compliment. The anonymous author (it is " Presented by the Chancellor of the Exchequer to Parliament ") has set himself a limited task, and compressed his material to a compass likely to be read not merely by Members of Parliament but by a considerable public. To do so, of necessity, he has refrained from elaboration and excluded many themes which, while relevant, were not directly concerned with the task in hand. The American reader can allow his inquiries more latitude.

The basic question in his mind may be as to the nature of the " dollar shortage ", not as it was in the immediate post-war period, but as it is in 1949, and as it relates to the " paramount aim ".

The magnitude of the problem may be set at something like $1 billion, the amount prospectively allocated under E.R.P. If England can export $1 billion more to America or can import $1 billion more of similar goods from non-American sources to be paid for by $1 billion of additional exports to those sources, the " paramount aim " is realized. But either alternative requires an additional $1 billion of exports. Total exports

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and reëxports in 1948 were on the order of $6 billion. An additional billion would then require an increase of some 16 per cent; but, since total exports and reëxports of 1948 to the "Western Hemisphere" were only about $1 billion, that alternative supposes an increase of 100 per cent. This looks rather formidable.

A second manner of stating magnitude is to relate this $1 billion to production. It would be something like 2 per cent of British national income. Quantitatively, such a figure seems relatively small. In other words, if Britain could produce $1 billion more of exportable goods, and sell them in the right markets, the "paramount aim" would be realized.

In the concluding Part III of the *Survey*, the problem is stated in those terms, rather than in the more conventional terms of the "dollar shortage".

"There are good reasons why productivity should now come to the forefront. . . .It is essentially a job of shifting resources from one use to another." And this in turn leads to a paragraph quoted in full:

> 125. What Government can do is mostly indirect. The problem is primarily one for industry. The best practice in this country is as good as that of any other, but pre-war difficulties developed in some sections of British industry the habit of seeking stability and security rather than progress. This has retarded the study and adoption of the best methods. In our present economic position this attitude is a real danger to the national welfare. *Our recovery will never be complete unless we can develop a keen and adventurous spirit in management, and a readiness to welcome new and improved methods by labour.*

These two passages, not widely separated in the *Survey*, should, I think, be read together. They prescribe an increase in output, and a shift in resources; and place the task of increasing output and shifting resources upon private enterprise.

To the American reader this raises two questions: First, are British prices competitive or, alternatively, are the available noncompetitive markets both wide enough to absorb the additional exports and capable of supplying the goods hitherto supplied from dollar areas? Second, does British enterprise retain or can it regain the freedom of action required for the

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increase in output and especially for the shifting of resources? On this, the *Survey* gives a somewhat ambiguous assurance: "Every opportunity will be taken to modify or remove controls whenever this can be done without too great risk of deflecting our productive resources from the most essential purposes." I use the adjective ambiguous reluctantly, because there are presumably priorities in the hierarchy of "most essential purposes." There may be no conflict, but there is no inherent concord between a system of controls, licenses, bilateral agreements, and so on, and a "keen and adventurous spirit in management" and the agile "shifting of resources".

In the end, the early realization of the "paramount aim" seems to me to hang on the question: Are British prices competitive? The war imposed on England a closed economy. But even before the war, the British economy had gone far in the "habit of seeking stability and security" by a wide variety of expedients aimed at avoiding price competition; and something like a closed economy seems to be postulated as a necessary concomitant of much of the ideology, current both in England and in other countries, including the United States. The closed economy of the war period was followed by the sellers' market with its absence of price competition. But even by the end of 1948, this situation was changing; as the *Survey* says: "Finally, there are the difficulties of finding buyers at our present selling prices. . . .At the same time increasing competition from other exporters have to be faced in the main hard currency markets."

The realization of the "paramount aim", then, seems to require these things: first, an increase in production not beyond ready imagination; second, a shifting of resources which would make this increased production suited to the desires of indicated markets—a more difficult task, but not beyond "keen and adventurous management"; third, a competitive price, which would translate these desires into effective demand. On this last condition, the *Survey for 1949* throws no light.

ROBERT B. WARREN

INSTITUTE FOR ADVANCED STUDY
PRINCETON, NEW JERSEY

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# A HALF-CENTURY OF AMERICAN FOREIGN POLICY

## OUR STAKE IN EUROPE, 1898-1948

FIFTY years ago the United States won a cheap victory, over a moribund Spain, in an *opera bouffe* war, and as a result was admitted by general consent, if not by general acclamation, to the mystic circle of the Great Powers.[1] In retrospect it is difficult to see why the victories at Manila Bay and Santiago should have been appraised so high; they constituted no true test of American strength and, as events proved, marked no sweeping revolution in American policy—certainly not as regards Europe. The United States, by most essential tests, had been a Great Power for a quarter-century or more before the War with Spain and would have been recognized as such at the turn of the century had the war never been fought. As early as the sixties, faced by the threat of secession, the American people had forged their still adolescent manpower and machine-power into the most formidable military force which the world had ever seen. After the exhausting struggle between the states, they turned their seemingly inexhaustible energies to the development of an almost virgin continent superbly endowed with natural resources. By 1880 our youthful, vital population of over fifty millions exceeded that of France, of Britain and of Germany. Shortly thereafter we acquired a comfortable lead over the rest of the world in the production of iron and steel, perhaps the most sensitive single indicator of industrial productivity and military power. Under Cleveland the first essential steps were taken toward the building of the new navy, a navy which was shortly, under Theodore Roosevelt, to be committed to Mahan's theories of

[1] In a somewhat different form this paper was read at the annual meeting of the American Historical Association at Washington, D. C., 29 December 1948.



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sea power, with all that they implied for a larger American foreign policy. Believers in a new manifest destiny for the United States in the Pacific were singing siren songs at Samoa and in Hawaii. Granted the situation as it was in 1898, it is difficult to see how the last remnants of a disintegrating Spanish imperial power could have offered us any but token resistance.

## I

Victory in the War with Spain did not make the United States a Great Power; it simply confirmed the fact that we already were a Great Power and attested our right to be so considered. It required that the chancelleries of Europe concede a new status to the United States in world affairs. Above all, it led us to think of ourselves as a Great Power, and, presumably, to conduct ourselves as a Great Power.[2] At the turn of the century most influential Americans would have agreed that

> the events of the last four years have definitely decided that, for woe or for weal, our place must be great among the nations. We may either fail greatly or succeed greatly; but we can not avoid the endeavor from which either great failure or great success must come. Even if we would, we can not play a small part. If we should try, all that would follow would be that we should play a large part ignobly and shamefully.[3]

Even our consciousness of power was not altogether new. We had long asserted our right to be arbiter in the relations between the nations of this hemisphere and the rest of the world. For more than a century before 1898 it had been our clear intent to make ourselves not only the principal power in the New World, but virtually the only power. We never quite realized this ambition in so far as liquidation of European possessions in the Americas was concerned. But to all intent and purpose it was true, as Olney asserted in 1895, that the word of the United States was law in this hemisphere "upon the sub-

[2] It is a nice point whether a nation which does not *think* of itself as a Great Power *is* one in fact. Certainly consciousness of power is an inherent element in power. In 1898 we became more aware than we had theretofore been of the potentialities of the United States in international politics, as will presently be shown.

[3] Theodore Roosevelt, Second Annual Message to Congress, 2 December 1902.

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jects to which it confines its interposition". No nation would have so boldly promulgated and so tenaciously upheld so sweeping a dictum as the Monroe Doctrine did it not visualize itself, almost from the first, as a power among the Powers. Indeed, one of the most extraordinary qualities of the extraordinary men who founded this nation was their keen appreciation of the actualities and potentialities of the United States in world affairs.[4]

In the Far East, as in Latin America, we had early asserted our right to be consulted when large affairs were in process of adjudication. The acquisition of the Philippines was a startling development in American policy, to be sure. But it would have been revolutionary, not merely startling, had the Islands been offshore to Europe rather than offshore to Asia. American sovereignty over the Philippines did not precipitate us into Far Eastern politics; the "larger" imperialism of 1898 was merely an acceleration of powerful forces already in operation. Early in our history we had acquired acutely sensitive nerves concerning the destinies of the Pacific, just as even earlier we had grown feline antennae concerning Latin America. No major disturbance in the *status quo* in either region was viewed as a matter of indifference to the United States. To put it another way, the presumptions of American policy in this hemisphere and in the Far East were active not passive, interventionist not isolationist.

Becoming a Great Power and a World Power in 1898 involved no perceptible change in our "traditional attitude toward European affairs". As regards the Old World we continued to be dogmatically, uncompromisingly, and indeed perversely isolationist. Even the effervescent Theodore Roosevelt —who enormously enjoyed the spectacular and the perilous and who wished to play a large rôle on a world stage—never ventured so far as to steer the United States into the turbulent seas of European politics. His intervention in the first Moroccan crisis was innocuous; it was in the nature of "disinterested service" which, when later practiced by Woodrow Wilson,

[4] See, for example, the remarkable statement by Hamilton in No. 11 of *The Federalist* and by Jay, Nos. 2 to 5, *ibid.* American scholars have overemphasized (and sometimes misinterpreted) Washington's *Farewell Address* and underemphasized *The Federalist* as a text for foreign policy.

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brought withering contumely from Oyster Bay; and had T. R. wished in this instance to be Machiavellian and imperious, the watchful Senate would have undone the damage—as witness the typical reservations attached to ratification of the Algeciras Convention. Roosevelt could brandish a big stick to Germany over Venezuela, but not over Morocco, since the latter was a pawn in the game of European "power politics" and hence anathema to us.

Some years later Roosevelt saw the European situation in different perspective. Speaking to a distinguished German diplomatist in 1911, he said:

> As long as England succeeds in keeping up the balance of power in Europe, not only on principle, but in reality, well and good; should she however for some reason or other fail in doing so, the United States would be obliged to step in at least temporally, in order to reestablish the balance of power in Europe, never mind against which country or group of countries our efforts may have to be directed. In fact we ourselves are becoming, owing to our strength and geographical situation, more and more the balance of power of the whole globe.[5]

In accord with this view, Roosevelt said in the same interview that had there been war over Morocco in 1905, and had the German armies overrun France, the United States "would not have kept quiet. I certainly would have found myself compelled to interfere."[6] But this was an *ex post facto* judgment,

[5] Freiherr Hermann von Eckardstein, *Die Isolierung Deutschlands* (Leipsic, 1921), p. 175. Eckardstein gives the quotation in English, with a German translation; this may indicate that he was transcribing it from notes taken at the time of the interview—indeed, as an experienced diplomatist, he may well have taken such notes. It is possible, however, that this was recollection, not more exact history. Although Eckardstein's reputation for accuracy and veracity has sometimes been impeached, there is every reason to believe that his account of the interview of 1911 with Roosevelt is authentic.

[6] *Ibid.* Eckardstein seems to have taken this statement with some mental reservations. It is in this context that he chose to point out the egocentric and other temperamental similarities of the Kaiser and T. R. He quotes Chauncey Depew as saying: "The Emperor and Theodore Roosevelt are in many respects much alike. If either of them goes to a christening he wants to be the *nouveau né*, if he goes to the wedding he wants to be the bride, and if he attends a funeral he wants to be the corpse." Like Willam II, Roosevelt was more irresponsible in speech than in deed; unlike the Kaiser, he was likely to say the indiscreet thing long after the event (as in the case of "I took the Canal Zone") rather than at the time.

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unsupported by the record of 1905. It was easy for Roosevelt, then free of the responsibilities of the presidency, to make sweeping generalizations of this character. But while he was actually in power—a term not too strong to describe his conduct of foreign affairs—he was restrained and cautious. He told Jusserand, the French Ambassador, in 1905, that as chief of state he "could not allow America to do anything quixotic."[7] And there is nothing in what he said or did at the time (as distinct from what he said later) which committed him or the United States to anything more substantial than mediation and conciliation.[8] In short, "the reign of Theodore Roosevelt" initiated no fundamental change in American policy toward Europe.

## II

The dichotomy of our active, "interventionist" policy in the Far East and our passive, "isolationist" policy toward Europe is an enigma and a paradox. Our stake in Europe is and always has been greater, infinitely greater, than our stake in the Far East. Indeed it is part of our stake in the Far East, for, as Tyler Dennett has pointed out, the Far East is only the backdoor of Europe. For three centuries or more the destinies of the world, including those of the Far East, have been settled on the battlefields or at the council tables of Europe. The sea lanes of the Atlantic, in peace and war, historically have been a more critical national interest to us than the broad reaches of the Pacific. Judged by the experience of two world wars—to

[7] J. B. Bishop, *Theodore Roosevelt and His Time* (2 volumes, New York, 1920), vol. I, pp. 477-478.

[8] Tyler Dennett, in *Roosevelt and the Russo-Japanese War* (Garden City, 1925), p. 2, quotes Roosevelt as having told the German Ambassador, Sternburg, 25 June 1905, that "in case of war [over Morocco] the support which would be brought to the aid of France would be very formidable" and concludes that this was a hint or a threat of American intervention on behalf of France. The fact is that the statement is what Roosevelt told Jusserand he *was going to tell* Sternburg. But there is no record that he told Sternburg and the German government any such thing. And even had Roosevelt actually told Sternburg what he told Jusserand, he did not say *whence* the aid to France would come. Compare Bishop, *op. cit.*, vol. I, pp. 480-485, with Sternburg's own official report of the interview of 25 June 1905 in *Die Grosse Politik der Europäischen Kabinette, 1871-1914*, vol. 20, Part 2, pp. 479-481.

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go no farther back in our history—we have no strategic interest anywhere comparable to our stake in the coastal states of Western Europe and their insular and continental possessions in the Atlantic basin.[9]

We gave emphatic recognition to these truths when, at the very outset of World War II, we decided to treat Germany as the heart, brain and fighting edge of the entire Axis coalition; accordingly we gave top priority in men and weapons to the European theater. And the defeat of Japan, it should be remembered, was achieved on the beaches of Normandy and in the skies over Berlin as well as in the savage fighting at Iwo and in the relentless bombing of the Japanese homeland by the B-29's. (Curiously enough, the Japanese themselves—much more remote from Europe than we, and with no cultural ties with European peoples—have always understood that the "strife of Europe" was an essential element, or a conditioning factor, in their plans for imperial aggrandizement. They have never deluded themselves into believing that the politics of Europe were of no concern to them.)

However, not even the most enthusiastic proponent of world power for the United States would have been so prescient or so temerarious fifty years ago as to prophesy that the United States would become as deeply involved in Europe as it is today. The earliest and most determined critics of our "traditional policy of non-interference in European affairs" would concede that we had come far and fast since 1914. The "Truman Doctrine", the Marshall Plan, and the prospective military alliance with the Western European nations are a recognition of the fact —so often and so heatedly denied, officially and otherwise, during the past half-century—that as a nation we have a large stake in the economic stability and political equilibrium of Europe. Our present policies presume, if you like, that we have a vital interest—as some have long insisted—in the balance of power in Europe. But they go even farther and assert that we

[9] Or, for that matter, their African continental possessions. From January 1, 1913 to July 31, 1940, the *New York Times* index lists the French port of Dakar a total of four times. It appeared 49 times during the balance of 1940 and 67 times in 1941—in the latter years almost exclusively in connection with its importance to the security of the United States.

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intend to play a conscious and, presumably, a decisive part in the maintenance of that balance. They proclaim, as we have so frequently proclaimed in the past, that we have a sympathetic concern with the cause of freedom in the European world; but here again they go farther and (unlike President Monroe's declarations concerning Greece in 1822 and 1823) make it clear that we intend to translate that concern into political and economic support.

One may quote in this connection the report of 25 February 1948, of the Senate Committee on Foreign Relations on S. 2202, "a bill to promote the general welfare, national interest, and foreign policy of the United States through necessary economic and financial assistance to foreign countries which undertake to co-operate with each other in the establishment and maintenance of economic conditions essential to a peaceful and prosperous world":

> The American people, victorious in battle, look out upon a world disrupted by war and shaken by its aftermath. Our efforts to win back to peace have included unswerving support of the United Nations, as well as generous assistance to foreign countries in need of aid. The decision which must now be made is whether we shall continue the effort to achieve our goal: The establishment of a stable world with free political institutions and the rule of law. Events of the next few years may well decide the issue. World stability and European stability are inseparable; free institutions and genuine independence cannot perish in Europe and be secure in the rest of the world. We must therefore shape our course upon the basis of our determination whether the countries of Europe can preserve their liberties and independence if they do not achieve economic recovery. The committee is convinced they cannot.[10]

The Committee here places its primary emphasis upon economic assistance by the United States to the nations of Europe; but the collateral evidence, including the Economic Recovery Act itself,[11] makes it plain that our motives and interests are

[10] 80th Congress, 2d Session, Senate Report No. 935, p. 2.

[11] 80th Congress, 2d Session, S. 2202.

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political as well. "It is declared to be the policy of the people of the United States [reads the Act] to sustain and strengthen principles of individual liberty, free institutions, and genuine independence in Europe" by participation in a joint recovery program. It would be a mistake to underestimate our deep-rooted and heartfelt concern for the welfare of our fellow men in Europe; no decent American would leave unheard or unanswered the call for help which comes from those who are hungry, cold, unclothed, or who otherwise have been victimized by the war and its resultant devastation. In addition, however, the Economic Recovery Program is an intelligent recognition on our part that wealth is a form of power, that economic means can be used to promote the political interests of the United States, broadly conceived—what Washington called our "interest guided by justice". E.R.P., therefore, is intelligent statecraft founded upon an enlightened self-interest. It is concerned, among other things, with helping the Western European states to resist Soviet subversion or aggression, which we cannot regard as other than "dangerous to our peace and safety".[12]

In this sense it must be admitted that we are participants in an undeclared civil war in Europe. If we are thereby involved in an ideological struggle with the Soviet Union it is because we are an integral part of Western European civilization and have a vital interest in its survival. Once more, as in 1917 and in 1940, we face the disheartening prospect that the problems of Europe will be resolved either by the hegemony of a single Power or by the restoration of some sort of balance of power. The former alternative would be as inacceptable to Europe and to us as it was in the days of Louis XIV, Napoleon, William II, and Hitler. The latter—the restoration of a balance of power—requires continuous and large-scale participation of the United States in European affairs. To the latter course we have committed ourselves.

[12] These words are, of course, from Monroe's historic message of 2 December 1823. One can paraphrase the Monroe Doctrine message, substituting Western Europe for Latin America, and produce an apt description of the situation now confronting us.

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## III

What shall we say of the European Recovery Program? Obviously the Act which gave the Program effect—like the Lend-Lease Act of 1941—is an historic document; it marks a revolutionary and perhaps irrevocable departure from all previous American policies and attitudes toward Europe. But is it a new "aberration" similar to the one of 1898, taking us out of our "proper sphere of interest", the Western Hemisphere, in pursuit of a will-o'-the-wisp in Europe? Or shall we concede that this new policy is, rather, a belated recognition of a long-established fact—namely that our stake in Europe transcends our stake in any other area of the world? And shall we conclude that our former policies toward that unhappy continent have been, during the last half-century, a costly form of self-delusion? Judgment in such matters is, in the nature of things, highly subjective. There are, alas, no gauges by which we can measure historical phenomena with mechanical precision; in this respect, as in many others, history is not a science. Nor is there any device by which we can appraise with any assurance or finality the effect of a given course of conduct upon the present or the future. Therefore, there will be no general agreement as regards interpretation of our past policies, or concerning the wisdom of our present course of action, toward Europe.

One may, however, venture some general observations on the vast panorama of the United States in world affairs during the past fifty years. To begin with, our history during that period was tragically and remorselessly affected by one of the fateful coincidences of history—the simultaneous rise to world power of Germany and the United States. Indeed, the historical fact of greatest single significance to American policy in the past half-century is the course of German history. And, in a sense, our relations with the U.S.S.R. are now conditioned by the heritage of German-American relations.

The dynamic policies of Imperial Germany offered no *direct* threat to the interests or security of the United States, despite the Samoa incident of 1889 and the Venezuela affair of 1902. Germany's determination to acquire an overseas empire, to establish herself as a sea Power of the first rank, and, in general,

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to win a " place in the sun " were disturbing to the *status quo* and hence had indirect reverberations in American policy and American opinion. The German case for a larger part in world affairs was not an inherently bad case, as the British were quite willing to concede on more than one occasion. But the brashness, bombast and truculence of German behavior aroused resentment and antagonism toward Germany the world over. The *arriviste* in world politics must tread warily, but German statesmen seemed to do even the right thing the wrong way. None of these things, in itself, need have been of serious moment to German-American relations. What really mattered—so it seems in the perspective of fifty years—was the challenge, the implacable and ultimately fatal challenge, which German policy in general and German naval policy in particular offered to the security of Great Britain and hence to the peace of Europe. As of June 1914, most of the outstanding questions at issue between Great Britain and Germany seemed capable of settlement. There remained, however, the question of limitation of naval armaments. This was the issue on which the Haldane Mission failed. This was the rock on which the peace of Europe really foundered.[13]

In 1914 the Anglo-German naval rivalry erupted into bitter, knock-down-and-drag-out combat for control of the seas, particularly the seas which wash the British Isles. After the strategic failure of hit-and-run raids in the North Sea and after the slow strangulation of cruiser warfare, the German Navy had recourse almost solely to the submarine. Only by uninhibited use of this new and terrible weapon could Germany break the back of British sea power. If Germany succeeded in doing this, Britain's day was done—and no one knew better than the British how serious the threat was. The resulting struggle was of Homeric proportions, and on its outcome hung

[13] It is not contended, of course, that the Germans were not free to challenge British sea power if they considered it in their interest to do so. The question was one of expedience and wisdom, not of rights. The decision reached was " worse than a crime—it was a blunder." In affairs of state, particularly those involving the destinies and very existence of other nations than one's own, the consequences of blunders may be as serious as the consequences of malevolence. There is an excellent discussion of the issues in E. L. Woodward, *Great Britain and the German Navy* (Oxford, 1935).

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the fate of England certainly, of Europe probably, of the world possibly. Looking back now over decades of costly experience it seems incredible that Wilson could have believed it the part of wisdom for a Great Power like the United States to stand aside in this struggle, seemingly indifferent to the fortunes and ultimate fate of the belligerents. It seems naïve, too, that he should have thought it feasible to bring about a "peace without victory". So long as the Germans continued to think, as they did in 1916 and 1917, that they could destroy Britain through the instrumentality of the submarine they would not have contemplated—as indeed they did not contemplate—peace by negotiation. It was worse than naïve, it was blind, for Wilson to think that the interests of the United States were circumscribed by the rules of neutrality and the laws of maritime warfare. Was the security of the United States—to mention no broader considerations—so little involved that we could regard the outcome of the war with philosophical detachment, concerned more with "disinterested service" than with national interest?

Apparently Wilson gave an affirmative answer to this question. He said again and again—even after he had gotten himself badly, almost hopelessly, entangled with Germany on the submarine issue—that the causes and objects of the war did not concern us. He gave an impatient and unsympathetic ear to House, Lansing, and others of his official family who urged the view that a German victory would be so portentous for the security and welfare of the United States that we could not allow it to come about. From time to time Wilson seemed to share this view. But he held it intermittently—just as he was intermittently petulant with one set of belligerents or the other—and he never allowed pro-Ally sympathies to sway him from the course of official neutrality as he understood it.[14] Until almost the moment of delivering his war message, Wilson hoped for a way around American belligerency, a way out of the dilemma he had forged for himself in the *Lusitania* and *Sussex* notes.

[14] As convenient a summary as any is Charles Seymour's *American Neutrality, 1914-1917* (New Haven, 1935).

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The theory has been advanced that the United States entered the war in 1917 to redress the European balance of power. Mr. Walter Lippmann, for example, advanced that view in the editorial columns of the *New Republic* in 1917 and has argued it persuasively since. This is what our reason for making war on Germany *should* have been. But no evidence, conclusive beyond reasonable doubt, has been brought to light to show that Wilson—who held the power of decision—was consciously influenced by such considerations or by fear that a German victory might jeopardize American security.[15] Had it not been for the German decision to resume unrestricted submarine warfare in February 1917, Wilson probably would have allowed the war to reach a military decision. He would have continued to hope that in the end he would realize his great ambition—which really belonged in the realm of fantasy—that this nation (aloof by choice from the blood, sweat and tears of the war) could be the arbiter of peace.

Had the United States remained neutral, it is highly probable that Germany would have won the war. Defeatism and mutiny in the French Army, war weariness among the civilian populations, the defection of Russia, and other causes might have decided the outcome in 1917. Without the tremendous lift which American participation in the war gave the Allied peoples, without the actual presence of American troops at the front, the great German offensives of the spring of 1918 almost certainly would have split the Allied armies and put them beyond succor or repair. These might have been the consequences had Germany not made the fatal mistake of bringing the United States into the war. This might have been the end result, had Wilson found it possible to remain neutral.[16]

After we actually entered the war, Wilson began to see the issues in somewhat different perspective. In 1919 his great speeches in defense of the Covenant and the Treaty emphasized our stake in Europe and discussed our policy in terms of Ameri-

[15] At no time between the first Battle of the Marne and April 1917 did really serious doubts arise in the United States that the Allies would win the war.

[16] On the colossal blunder of the Germans in bringing the United States into the war see Winston Churchill, *The World Crisis, 1916-1918* (New York, 1927), vol. II, pp. 229-231.

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can interest and national security. Fighting for the principle of collective security and for the very life of the League of Nations, Wilson told the Senate Committee on Foreign Relations, 19 August 1919, that "our moral conviction of the unrighteousness of the German war" (a phrase used by his interlocutor Senator McCumber) would "eventually" have led us into the struggle even had there been no acts of war, or other outrages, committed by Germany against the United States. This, also, is an *ex post facto* judgment, reached in a different political climate and with a different political purpose. It is not supported by what we know of Wilson's views during the years 1914-1917 and, more particularly, during the period, December 1916 to April 1917.[17]

## IV

Foreign policy is not the plaything of professional diplomatists or even of presidents. It is the expression of the historical traditions, the hopes and ideals, the moral convictions of a people. Its success must be measured in part by the extent to which it truly represents those ideals and convictions. It is the first line of the nation's defenses—what Mr. Lippmann has called the "shield of the republic". As such, it is the concern of every citizen who holds precious the welfare of his country and cherishes the lives and fortunes of its youth. For if a foreign policy fails—as it failed in Britain in 1938 and in France in 1940, for example—the result may be disaster. In every sense—whether they view themselves as teachers, scholars, publicists, or ministers without portfolio—historians must be particularly concerned with foreign policy. They can see and should see issues against a broader convas than is provided by the daily headlines. During the years 1914-1917 they knew—or should have known—enough of European and world politics to appreciate that the destinies of this nation never have been, and in the nature of things never could be, altogether divorced from

[17] *Hearings before the Committee on Foreign Relations, United States Senate, Sixty-Sixth Congress, First Session, on the Treaty of Peace with Germany*, p. 536. Professor Thomas A. Bailey points out that historians have become confused over the differences between the *causes* of our entry into the war (which were controlling prior to April 1917) and the *objectives* for which we later fought the war. *Woodrow Wilson and the Lost Peace* (New York, 1944), chapter i.

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the destinies of Europe; that, if you will, the New World was tied to the Old by an umbilical cord. They knew, in particular, of the close ties which bind us to the British world—ties which are nonpolitical but have always had their political implications for us and for the British people. They knew that few European wars have been of purely European interest and concern, that they have almost always had repercussions in far-flung continents, including the Americas. They knew, too, that the threat of German militarism was no figment of the imagination, that it played a large part in the politics of Europe from the very moment Bismarck triumphed in the Prussian constitutional conflict of the 1860's.[18] They knew that the European balance of power had been a silent partner in the maintenance of the independence of the United States since 1776 and that the principal threat to the balance of power in Europe came from Germany and perhaps only from Germany. They knew, too, that German conduct of the war went so far beyond the accepted standards of behavior as in itself to cause grave concern to the whole civilized world—for it must be remembered that the invasion of Belgium, the destruction of the university library at Louvain, and the sinking of the *Lusitania* are not to be regarded as discredited stories of German atrocities.[19]

Historians must have known these things; but they regarded them as some far distant shore on which the ship of state could not conceivably be wrecked. Long after the war was over—with full benefit of reflection and documentation—the pre-

[18] Charles A. Beard, who later gave an isolationist twist to the historiography of the war, was at the time a highly articulate critic of Prussian militarism. See *New York Times*, 27 February, 9 October 1917, and the *Columbia Spectator*, 2 April 1917.

[19] The most perspicacious treatment of Germany by an American scholar was Thorstein Veblen's *Imperial Germany and the Industrial Revolution* (New York, 1915), which pointed out that the dynastic and essentially feudal character of the Imperial German Government was an anachronism in a highly industrialized nation. American intellectuals, other than historians—and, indeed, a minority of the historians—were sufficiently anti-German to lead the *New Republic* to say that college professors, headed by a president who had himself been a professor, contributed more effectively to the decision in favor of war than any other class ("Who Willed American Participation?", 14 April 1917). This may have been true, although it is doubtful, but the intellectuals who favored war with Germany took their stand less on the broader political issues than on a variety of other grounds.

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dominant opinion of American historians and publicists was that our course in 1917 was a mistaken course, that we should have remained out of the war regardless of whether the Allies had won, lost, or drawn. As to Wilson, he is not charged—as he should be charged—with failing to consider the broad security interests of the United States as they were jeopardized by Germany. He is accused, rather, of failing to be more tenacious and more adroit in pursuing a course of technical neutrality. On the one hand are those like Professor Borchard who insist that the laws of maritime warfare then prevailing would have been adequate to the contingencies of submarines, armed merchantmen, contraband, and the like.[20] There are others like Professor Tansill who say that Wilson was "unduly conservative" about "radical revision" of international law in order to give the submarine more leeway. "Legal precedent loomed so large across his horizon that it completely blocked out any vision of a modified law of nations that kept pace with changing conditions of warfare."[21] Mr. Borchard says Wilson was not legalistic enough, Mr. Tansill that he was too legalistic; but they both make the issue legalistic, rather than broadly political, one of law rather than one of statecraft.[22]

It is not historians who have advanced the more bizarre interpretations of American policy from 1914 to 1917; but as a group, American historians have been surprisingly credulous and uncritical concerning the rôle of propagandists, munitions makers, bankers, and similar nefarious agents in "dragging" us into a war. They have been unduly impressed by the alleged sinister abilities of the British to pull the wool over our eyes or to seduce us from the line of duty. At least two American historians have suggested, by innuendo, that the British lured the Germans into sinking the *Lusitania* with the intent of precipitating a German-American crisis. Basic to

[20] Edwin Borchard and W. P. Lage, *Neutrality for the United States* (New Haven, 1937), especially chapters i-iii.

[21] *America Goes to War* (New York, 1938), p. 260.

[22] Parenthetically, there is now a new school of history which attacks Franklin Roosevelt as being security-minded, not legally- and constitutionally-minded, during the European and Far Eastern crisis of 1940-1941.

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almost all American historical writing concerning the First World War is the presumption that we should have remained neutral because it made no important difference to us which of the belligerents emerged victorious, provided either did.

But would prudence have dictated an American policy founded upon any such premise? It may be, of course, that Imperial Germany, flushed with victory in 1917 or 1918, would have shown qualities of wisdom and restraint which it conspicuously failed to show before 1914. It is not only possible, it is highly probable, that, had Germany won a decisive victory over the Allies, German military might would have dominated Europe for a generation. There was nothing in what we knew of pre-war German behavior to warrant us in taking the risks which would have been inherent in such an eventuality. What we know of Tirpitz suggests that, had the German Navy swept the British from the high seas, it would have reached beyond its home waters to exert on the United States and others the political pressures which he regarded as intrinsic in naval power. To be sure, Nazi Germany proved to be far worse than Hohenzollern Germany ever was or ever might have been—partly because Nazism was a grotesque exaggeration and a shocking perversion of some of the forces at work in Germany between 1848 and 1918; but one deals with the crises with which one is actually confronted. A sober view of our interests in 1917 would have required that we be skeptical concerning the course which an all-victorious Germany would pursue in the post-war world. We knew that a world in which British and French influence and power remained intact was a world in which we could live, prosper and remain at peace. A world in which German influence and power were dominant might or might not have offered us either the sense or the reality of security. A wise nation does not abandon the known and the certain for the unknown and the uncertain. Placing any substantial reliance on the future good behavior of Imperial Germany would have involved grave elements of risk. We should have entered the war to forestall the risks inherent in a German victory over the Allies. That we entered the war on a narrower issue was one of the reasons for the failure of the peace.

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## V

We learned in the period between two wars that historical interpretation is no mere academic exercise conducted in an ivory tower. The "revisionist" agitation exonerated Germany of her just share of responsibility for the war as well as acquitted her of some of the less warranted wartime indictments. The slogan "making the world safe for democracy" was distorted to mean something quite different from what it was intended to mean. Pacifist, isolationist and economic determinist philosophies played ducks and drakes with the truth.[23] The reports of the Nye Committee became the source material for historians of all ages from the college freshman to the elder statesmen of the historical guild. As a result, some of our historical writing during the years 1919 to 1939 was not the truth, certainly not the whole truth, withal it was dressed up in the impressive regalia of scholarship. A good deal of historical teaching, as well as historical writing, was the direct cause, if not the only cause, of the cynicism and intellectual nihilism which determined the climate of our university campuses for twenty years.[24]

Just as Americans were less aware than they should have been of the rise of German power in the world before 1914, so have we been less alert to the collateral decline of British power during the twentieth century. This was a long-drawn-out and, at times, barely perceptible process. It acquired toboggan speed only after V-E Day, 1945. But it alarmed Brooks Adams and others in America and England at least fifty years ago. Prior to 1914 the decline was largely in Britain's competitive strength in industry, commerce and overseas investment rather than in her military power. Because the decline was comparative rather than absolute, it was concealed from all but the most discerning eyes. Even after 1914 it was not generally

[23] As regards the economic interpretation, a British economist recently has said with much wisdom and some understatement that "the mania for simple, single explanations is one of Marx's most damaging legacies" to our time. Barbara Ward, *The West at Bay* (New York, 1948), p. 70.

[24] Lest it be thought that I am a common scold, I sadly plead *mea culpa* to some, although not all, of these crimes and misdemeanors.

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realized that complex forces were operating to undermine the foundations of the British position in the world. One need mention only two: nationalism and related political beliefs which were having a centrifugal effect on the imperial system; a changing military technology, notably the development of submarine and aerial warfare, which seriously threatened the security of the British Isles for the first time since 1066. It was not until 1940—and not even then—that Americans became fully aware of the extent to which the British position in world affairs had deteriorated to British disadvantage.

Europeans have been rather more aware than Americans of the special position which Great Britain occupies, and of necessity occupies, in the foreign policy of the United States. Even Hitler understood that his attitude toward Britain would play a determining rôle in American policy toward Nazi Germany. "Because of the British Empire," he wrote in *Mein Kampf*, "one too easily forgets the Anglo-Saxon world as such. England cannot be compared with any other state in Europe, if only because of her linguistic and cultural communion with the American Union." [25]

It has long been the fashion for Americans of diverse shades of political opinion to pillory Britain for everything she does and to hold up British imperialism to contumely. The brashness, indeed the insolence, with which we have presumed to tell the British how to run their affairs at home and abroad—while resenting any comment by the British on our own behavior—is one of the more bizarre features of international relations during the past half-century. Had our most vocal critics had their way, Britain would long since have disappeared as a World Power. Now that the decline of British power has assumed alarming proportions, we are learning to our sorrow, and at heavy cost to our national exchequer, that all is not cakes and ale just because, here and there, the Union Jack is hauled down. On the contrary, as a people we are beginning to learn that British power, in all its varied aspects, has for more than a century been the greatest single factor in the political equilibrium

[25] *Mein Kampf*, first German edition of 1925 translated into English and published in full by Reynal and Hitchcock (New York, 1939), p. 180.

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of Europe and, hence, of the peace and security of the world. Conversely, the decline of British power since 1918, as well as the reluctance of Britain effectively to use her power during the twenty years' crisis, was one of the fundamental causes of the War of 1939. Now that Britain has so little power to use, we find ourselves on some very hot spots indeed—in Greece, Palestine, Saudi Arabia, Iran, and elsewhere, with other areas of potential trouble looming just over the horizon.[26]

For a century after 1814—with the exception of the decade 1907-1917—one of the principal concerns of British policy was to resist Russian expansion along the whole periphery of the Russian Empire; to resist by diplomacy, moral influence, economic pressures, and, if necessary, by armed force. In so doing Britain was, of course, serving her own interests, but she incidentally was serving purposes other than her own. In a sense we have inherited the former British responsibility, unwelcome as it is, of "containing" Russian imperialism. We are clashing with the U.S.S.R. principally, although not exclusively, because former spheres of British influence, control, or possession are now political vacuums. If the smaller states of Europe and the Near East are to have any security at all, if they are to have a controlling voice in their destinies, their security and independence will derive from American economic aid and, if necessary, American military support.

## VI

When the struggle with Germany was over in 1945, Europe was cold and hungry, bleeding from a thousand wounds, living 'midst rubble and devastation. Her industry was shattered, the delicate arteries of her transportation system severed at innumerable places, the fertility of her soil sadly depleted. She was suffering, too, from the trauma of war and occupation. Her political and social fabric was rent by dissension and treason. According to all pat formulas Europe, in such dire straits, should have gone Communist. To be sure, communism took great strides forward, as it is almost certain to do where there

[26] I have quoted or paraphrased here a paragraph from a lecture "National Power and World Order", delivered at the University of Denver in May 1948 and published in *Foundations for World Order* (Denver, 1949).

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is widespread misery and confusion; but communism was not embraced by Europe, and communism did not conquer Europe. With the single exception of Czechoslovakia—a very special case—it was only behind the lines of the Red Army that Communist governments were installed; and even there they were brought into being, in most instances, by a carefully trained Fifth Column aided by the persuasive powers of bayonet, truncheon and noose. Communism has not cashed in, as its high priests believed it would, on " imperialist war ".

We cannot believe, therefore, that the peoples of Western Europe, " if left to themselves, would embrace it of their own accord "; but they are not being left to themselves. They are being bullied and subverted. Because we have so great a stake in the recovery, the independence and the security of the nations of the Atlantic World we cannot regard other " than as a manifestation of an unfriendly disposition toward the United States " the effort of any Power to menace their freedom or to intervene in their affairs " for the purpose of oppressing them, or in controlling in any other manner their destiny ".[27]

A specter is haunting Europe, and it is not the specter of communism. It is the specter of Soviet imperialism,[28] Soviet subversive methods, and Soviet military power. Were Europe's problems exclusively or even primarily those of recovery from an appallingly destructive war, they would be solved, however slowly and arduously; Europe always has shown extraordinary resilience to war. But the problem of Western Europe is, rather, that of assuring survival of the institutions under which it has lived, with change and variation, since the great British and French revolutions. These institutions are threatened by Soviet power, resourcefully and pitilessly exerted to its own ends. To this power only equal or greater power can be inter-

[27] The quoted phrases are again, of course, from Monroe's message of 1823 setting forth the historic Doctrine.

[28] The use of the term imperialism may seem a mere *tu quoque*. But unless facts have no meaning at all—Lenin said that facts are " stubborn things "—the whole history of Russia and the Russian Empire (now the U.S.S.R.) has been one of relentless pressure along the whole periphery of its vast territories, with impressive and almost uninterrupted territorial expansion, for more than four centuries. American imperialism of that variety ended with the Indian wars of the eighteen eighties.

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posed. At the moment the chief, perhaps the only, hope of those who still cherish the Western European heritage—from which America itself was born—is American power. Without power even the righteous perish; hence the day is come when the New World indeed is called upon to redress the balance of the Old.

It is a new, distasteful, experience for Americans to realize that the recovery and stability of the world cannot be achieved or maintained without active participation by them in European affairs. It is likewise a new, and even more distasteful, experience to know that such participation will require, for an indefinite future, that we be a formidable military power. For we do not like power; we distrust it and detest it. It was also a new, and distasteful, experience for the American nation to find itself the object of a hostile Axis coalition in 1940 and the victim of a sneak attack on American soil in 1941. However, power is not necessarily coarse, brutal and sordid; it can be used with a "decent respect to the opinions of mankind". It can be the guardian of right and freedom as well as of national interest. Even in the service of the best cause, it must be remembered, power must be used with dignity, restraint, wisdom, and what a colleague of mine calls "style". If it is so used, the ultimate verdict upon our time need not be, what Gibbon called all history, "a record of the crimes, follies, and misfortunes of mankind".

EDWARD MEAD EARLE

INSTITUTE FOR ADVANCED STUDY
PRINCETON, NEW JERSEY

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# THE NATIONALIZATION OF BANKS IN FRANCE

WITHIN the single decade 1935-1945 the legal position of French banking shifted from extreme laissez faire to complete government ownership of the central bank and the four largest commercial banks, with widespread controls over all banks. The freedom with which French bankers operated in the years before 1935 is hard to visualize in the United States, where restrictive bank charters and elaborate banking legislation have long been taken for granted. In France the need for legal control had been little felt, partly because there was early developed a very efficient postal checking system and a very safe public savings bank system. The network of branch banks served the needs of business throughout the country, and bank failures were few.

The financial difficulties following the First World War and its aftermath of depression did much in France, as in the United States, to undermine confidence in the banking system. In 1930, as a consequence of a series of bank failures, the first step toward legal regulation of banking was taken; and entry into the banking business was hedged about with limitations in order to exclude those convicted of theft or fraud, and bankrupts.

In this same period the French Treasury on two occasions took the unprecedented action of subsidizing and supervising two banks the failure of which would have had serious repercussions.[1] The old and respected *Banque d'Alsace et de Lorraine* found itself in difficulties because one of its associates, *Bauer Marchal et Cie.*, had been involved with the notorious *Banque Oustric*. Under the supervision of the Bank of France, and with funds advanced by the Bank of France and the Treasury, the creditors of the failing bank were paid off at once and the assets gradually liquidated. As a result of this intervention, only the stockholders suffered any loss. The second case involved a much larger institution, the *Banque Nationale de*

[1] M. G. Myers, *Paris as a Financial Center* (London and New York, 1936), pp. 105, 116.



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*Crédit*, one of the six largest commercial banks in France. Its difficulties proved too great to be handled by a consortium of the Bank of France and other large banks in Paris, and the Treasury again felt obliged to intervene with a loan of more than a billion francs. The bank was completely reorganized as the *Banque Nationale pour le Commerce et l'Industrie*, with officers named by the Treasury and supervised by the Bank of France.

Since the government had been called upon to aid banks when they were in trouble, several political parties suggested that legislative controls should be set up in order to prevent trouble. The *Confédération Générale du Travail* in its program for 1934 included an outline for a planned economy in which banking would be nationalized and put under the direction of an economic council, with a view toward stabilizing production and avoiding depression.

The growing dissatisfaction with the banking system found a focus in the Bank of France. As set up by Napoleon, the Bank had always enjoyed special privileges. Its size, its prestige, and the fact that only the two hundred largest stockholders had any voice in its direction made it a conspicuous target for democratic reformers. As early as 1848 Louis Blanc was proposing that it be nationalized, and P. J. Proudhon demanded that it be replaced entirely by a Bank of the People. During the 1860's even conservatives like Courcelle-Seneuil, Chevalier and Courtois joined the attack on the note-issue monopoly. In 1897 the debate on the renewal of the Bank's charter brought forth another proposal for nationalization. None of these attacks resulted in anything more drastic than an increase of the loan without interest which the Bank made to the Treasury as the price it paid for the periodic renewal of its charter.

The attacks against the Bank in the 1930's were thus not without historical precedent. They came from three groups in the economy, each of which had its special reason for criticizing the Bank. To the general public the Bank was the center of the financial network, and the instrument by which the "two hundred families" exercised their domination over

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the economic life of the country. To other bankers, the Bank of France was a competitor which took an unfair advantage of its position in the money market. Moreover, since the deflation drive of 1926 it had refused to rediscount for the commercial banks the finance bills (not based on actual transactions) which had formed one of their principal sources of profit. Publicly the commercial banks based their opposition to the Bank of France not upon its policy toward themselves but on the inflationary danger for the whole economy arising from its willingness to forego the traditional third signature on paper presented for rediscount and accept in its place collateral security.

Thirdly, and perhaps most significantly of all, to the Treasury the Bank of France represented an obstacle to the financing of budgetary deficits by borrowing from the central bank at low rates. Under its charter the Bank was obliged to lend to the Treasury without interest a total of 3,200 million francs, but since 1926 it had refused to rediscount the short-term notes of the Treasury. These notes were widely held by banks and other financial institutions, and had in large part supplanted the acceptances which traditionally made up French bank portfolios. The Treasury resented the policy of the Bank with respect to its notes, and the uneasy truce which had been maintained since 1926 broke into open conflict in the years 1934 to 1936. Governor Moret was forced out of the Bank and replaced by M. Jean Tannery, formerly head of the *Caisse des Dépôts et Consignations*, under a compromise agreement that the Bank was to make loans for periods up to thirty days on short-term Treasury obligations, but at a rate slightly above the official rediscount rate.

This slight concession was not enough to satisfy any of the critics of the Bank. "Make of the Bank of France the bank of the French" was one of the slogans of the electoral campaign of 1936. When the Blum government came into office it immediately set about the promised reform. In the absence of any real defenders of the Bank it was easy to secure the changes in its charter which would "democratize" it (Law of June 25, 1936). The former Board of Regents which had been

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elected by the two hundred largest stockholders was abolished. In its place was set up a council of twenty-three members, twenty-one of whom were appointed by the government to represent different government agencies and institutions, industry, labor, commerce, consumers and investors. Each stockholder regardless of his holdings was given one vote in the election of the two remaining members. Since there were more than 40,000 stockholders it is clear that their influence was well diluted in the new council. The first general meeting of stockholders was held on January 28, 1937 according to the terms of the new law, and, as might have been expected, was a turbulent one. In spite of the disorder and confusion, two new members were elected to the council, both of them representing conservative interests. In connection with the changes in the Bank charter, the governorship was changed again, to bring in M. Labeyrie, a partisan of the Popular Front.

These events marked a sharp break in the time-honored tradition that the Bank of France was an independent private institution, merely endowed with a few privileges in return for exercising a few obligations. This was a tradition to which the bank management had clung even during the First World War, when the Bank was completely subservient to Treasury policy, and which the Treasury itself had honored when it permitted the Bank to conceal the amount of its losses at the time of the sterling devaluation in September 1931. The new legislation made it impossible for the Bank of France to deny that it was a central bank in the modern sense of the word.

The change in the Bank's own conception of its status can be traced in its annual reports and in the statements made by its officers regarding its place in the economy. In the early 1930's the Bank was still disclaiming any special responsibility for the condition of the money market, but by 1934 M. Tannery, the recently installed governor, felt impelled to emphasize that the policy of the Bank had been "inspired, this year as in preceding years, by the constant concern to reduce the inevitable repercussions of the crisis on the economic functioning of the country." The next year, in defending the Bank's refusal to make more loans against gold bars, he went so far as to declare that the policy of the Bank, especially in time of crisis, ought to in-

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clude measures of active initiative as well as of passive defense in the money market.

The report of the Bank for 1938, at the same time that it recalled its tradition of stability of rediscount rates, announced a marked departure from the traditional policy of the Bank in its open market operations carried on under the law of January 17, 1938. The report for 1939, issued after the war had broken out, made a complete about-face and insisted that in giving full support to the effort for economic recovery the Bank was merely being faithful to its tradition. The Bank could hardly go farther in accepting its new rôle of central bank.

Although much of the attack upon the Bank of France had arisen from the fact that it was so convenient a political target, there seems to have been some basis for the criticisms. The attitude of its principal officers was generally regarded as inflexible and legalistic. Many of them were graduates of the *Ecole Libre des Sciences Politiques*, which in spite of its name had an aristocratic tradition and gave a training which was literary and historical rather than scientific or economic in content. From this school the preferred route into the banking profession was by way of a position with the Treasury as *Inspecteur des Finances*, which frequently led to a position with the Bank of France. After a period with the Bank these men had received a training which made them very valuable to the big commercial banks, so that there was a steady stream of officers from the Treasury through the Bank of France to the other banks. Another unfortunate aspect of this system was that there was little opportunity for advancement for the personnel of the Bank below the top level who had not had the advantage of this training.[2]

### *Wartime Changes in French Banking*

No further important change in banking laws was made for nine years after the " democratization " of the Bank of France in 1936. During these years, however, the exigencies of prewar and war financing brought about a series of developments in the functioning of the credit system which laid the foundation for the changes enacted into law when the war was over.

[2] Robert Wolff, *Économie et finances de la France* (New York, 1943).

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All these changes were in the direction of greater government control over banking and credit.

In many instances the incentive for a closer relation between the government and the banks came from the need to protect banks from the risks involved in the financing of the war, risks which the banks could not refuse to take but which went far beyond the bounds of ordinary banking prudence. As early as 1936, as an accompaniment to the rearmament program and the increased spending of other government agencies, there was established the *Caisse Nationale des Marchés de l'État* for the purpose of accepting or guaranteeing drafts arising out of sales to the government. Since the volume of ordinary business bills in the market was declining in this period, government-guaranteed bills occupied an increasingly important place in bank portfolios.[3]

The Vichy government which came into power in 1940 continued to use the *Caisse* and created in addition a new instrument to facilitate its operations, the *lettre d'agrément*. This was a letter from the Minister of Industrial Production to a manufacturer, specifying the quality and quantity of materials, and guaranteeing the purchase of the product at a minimum price. Armed with this document, the producer was able to obtain a bank loan with which to purchase the raw materials.

In the field of medium-term credit, new facilities were created by permitting the *Crédit National* not only to extend credit directly to producers (the purpose for which it had originally been established in 1919) but also to rediscount for its own portfolio, or guarantee for rediscount by a bank, paper with a maximum term of five years.

More fundamental than mere changes in the terms by which banks could extend credit was the enactment of the decree-law of June 13, 1941 for the "regulation of the banking profession." Banks were for the first time given a legal definition as "those institutions which make a profession of receiving from the public deposits of funds which they employ in discount, credit or financial operations." All banks under this definition were required to maintain a minimum capital (to

[3] Pierre Cauboue, *Banque et problèmes bancaires du temps présent* (Paris, 1942), pp. 304 *et seq.*

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be determined by the Secretary of State for National Economy and Finance), to make public reports monthly or quarterly depending upon the size of the bank, to belong to the professional organization of bankers, and to provide any other information demanded by the Bank Control Commission created under the same law.

This Commission as originally constituted had three members, the Governor of the Bank of France, the president of the professional association of bankers, and a representative of the Secretary of State for National Economy and Finance.[4] Its principal function was to classify and register the various types of banks in France, something which had never been done before. At the end of 1946 this list included:

| | | | |
|---|---|---|---|
| Commercial banks | | | |
| foreign | 28 | | |
| regional | 22 | | |
| local | 214 | | |
| nationalized | 4 | | |
| other | 125 | | |
| | | 393 | |
| Investment banks | | 43 | |
| Medium- and long-term banks | | 8 | |
| Total banking establishments | | | 444 |
| Other financial establishments | | | 560 |

The Commission at first required only simple reports of condition from the banks. The reports have been made steadily more elaborate and informative by the addition of detail regarding the composition of bank portfolios, and by the separation of assets held in France from those held in foreign currencies. The Commission watches these reports carefully, and, if there is any significant change apparent in the condition of a bank, further information may be demanded.

The establishment of the Bank Control Commission, although it functioned in close coöperation with the professional organization of the bankers themselves, was a serious limitation upon their former freedom. When the law was passed during the occupation, little effective protest was possible, and the banks contented themselves with commenting mildly in their annual reports. The *Société Générale* saw in the law a method of

[4] *Rapport de la Commission de Contrôle des Banques*, 1947.

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obtaining coöperation among the banks without destroying their initiative; the *Crédit Lyonnais* observed that it had always followed a policy of coöperating with other banks and avoiding overextension of credit to doubtful enterprises. Both banks implied that a law was not necessary to orient "private credit in the direction of public welfare", as the Secretary of State for National Economy and Finance had expressed its purpose.

### *The Nationalization Act of December 2, 1945*

The French government, organized after the liberation, turned its attention immediately to the problems of economic reconstruction, and the banking system was among the first sectors of the economy to be considered.[5] The leftist parties were insisting upon a program of widespread nationalization which would include, besides many industries, all of the banks. The more conservative parties were willing to stop with the Bank of France, which had many enemies and few friends. The final choice of the banks to be included in the nationalization scheme was a compromise solution. It included the Bank of France, and the four largest commercial banks which held about half of all the commercial bank deposits of France. The two largest investment banks, the *Banque de Paris et des Pays-Bas* and the *Union Parisienne*, were not included largely because they had foreign connections which would have created international legal complications. They were, however, subjected to most of the controls, so that their advantage was in the end rather slight.

The banks had accepted war controls and the establishment of the Bank Control Commission, knowing that protest was futile under the occupation. Toward the nationalization plan they were bitterly resentful. When they realized that the change was inevitable they concentrated their protests upon the terms at which the shareholders were to be bought out by the government. The proposed purchase price was based upon the market value during a period when rumors of nationalization depressed the shares to a point far below what was claimed as their true worth. Moreover the proceeds of more than

[5] David H. Pinkney, "Nationalization of Key Industries and Credit in France after the Liberation", POLITICAL SCIENCE QUARTERLY, September 1947.

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twenty shares in the hands of any one owner were to be put into blocked accounts. The banks succeeded in eliminating this latter provision from the law, but they were unable to raise the purchase price above what they characterized as " simple spoliation ". The annual return on the purchase price of bank shares, as in all nationalized industries, was set at three per cent.

The text of the law which made the government the owner of the principal French banks occupied relatively little space.[6] The first title of the Act was devoted to the Bank of France, and comprised only three paragraphs. These were sufficient to set the date for nationalization at January 1, 1946; to assure to the Bank the continuance of its note-issue monopoly and its banking functions; and to transfer to the government its capital stock in exchange for Treasury obligations. Further details were left to later legislation.

The second title of the Act reaffirmed the definitions of deposit and investment banks as they had been classified in the decree-law of 1941, and named the four commercial banks which were to be nationalized: the *Crédit Lyonnais,* the *Société Générale pour favoriser le développement du commerce et de l'industrie en France,* the *Comptoir National d'Escompte de Paris* and the *Banque Nationale pour le Commerce et l'Industrie.*

The third title was almost as concise as the first and in four short paragraphs provided that all property of the four banks be transferred to the state, that a temporary administrator be named by the Minister of Finance to take over the affairs of the banks until the date of actual nationalization, that stockholders be given a Treasury certificate in exchange for their shares, and that the conduct of each bank after January 1, 1946 be entrusted to a new Council of Administrators in place of the old council elected by the stockholders. The new council which was set up in each of the four nationalized commercial banks was designed to give representation to a wide range of economic interests, but to keep the control firmly in the hands of the government. Of the twelve members, four were named by the

[6] *Premier Rapport Annuel du Conseil National du Crédit,* translated in the *Federal Reserve Bulletin,* May 1946, pp. 483 *et seq.*

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Minister of National Economy to represent industrial and agricultural organizations, four were named by labor organizations including those of bank employees, and four more were named by the Minister of Finance to represent the Bank of France, other public credit institutions and bankers. The president elected by the council had to have the approval of the Minister of Finance. Moreover the Bank Control Commission appointed a censor, paid by the bank, who had the right to attend all council meetings and even to call a meeting in an emergency. Profits of the banks were to be allocated first of all to repay the Treasury advance made at the time of nationalization; then five per cent was to be assigned to reserves until the reserves amounted to ten per cent of the capital. The remainder was to be divided as the Bank Control Commission saw fit.

Title four of the Nationalization Act provided for the regulation of the investment banks which had so narrowly escaped government ownership. The Ministers of Finance and of National Economy were to appoint for each bank and for any of its subsidiaries, a commissioner and a Control Committee of three persons representing commercial, labor and banking organizations. The commissioner has the right to attend all meetings of the bank council and its committees, veto their decisions, see all books and records, and propose any action which he believes to "conform to the general interest." The bank has the right to appeal his decision and obtain a reply from the National Credit Council within ten days.

The most important part of the Nationalization Act in many respects was not the actual nationalization of a few banks, but the creation, under title five of the Act, of the National Credit Council. This was a body of forty members headed by a cabinet minister, with the Governor of the Bank of France as vice-president. Seven members represented other ministries concerned with credit and banking, and seven represented public and semi-public financial institutions. Seven members were chosen for their specialized financial knowledge from the nationalized banks, the private banking sector, the foreign trade banks, and the Bourse. Seven others represented labor organizations, including those of bank employees. The other ten

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came from various economic groups—agriculture, coöperatives, foreign trade, shipping, chambers of commerce, and craft organizations. It is noteworthy that even those members nominated by nongovernmental groups were actually *appointed* by government officials.

Because of its large size the Council was directed by the law to set up four subcommittees, for special supervision over bank deposits, over short-term credit, over medium and long credit, and over foreign trade. These committees covered the principal fields of activity envisaged for the Council. In order to carry out its functions, it was given far-reaching powers of investigation, of policy-making, and of enforcement. It has the right to obtain from the banks, private as well as nationalized, detailed reports on the composition of their portfolios even to the names of borrowers and the amount of their borrowings. On the basis of the information thus for the first time made available, the Council formulates credit policies and integrates all the activities in the field of credit, money and banking, of private as well as of governmental organizations. To the Minister of National Economy it makes proposals for the financing of the Monnet Plan for reconstruction and modernization, and determines the priorities for the use of funds and for the flotation of securities. To the Minister of Finance it proposes the amount and kind of Treasury borrowing. It is consulted by all the governmental agencies in matters of investment, subsidy, or guarantee of credit. In view of the membership of the Council and of its wide powers it is evident that the way is now open for complete planning and control of credit in France.

In addition to its broad policy-making powers, the National Credit Council was directed to study and make recommendations for the extension of nationalization to other banks. The number and distribution of branch offices were to be reviewed by the Council in order to eliminate duplication of banking services; and in fulfilling this task 280 out of a total of 3,549 offices were closed during the year 1947, while new offices were provided for some areas which had been without banking facilities.

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The Council was also empowered to exercise, through the Bank of France, all the duties of supervision and regulation formerly carried out by the Permanent Committee of the Bankers' Organization under the decree-law of June 13, 1941, of the Vichy government. Much of the activity under this head during 1946 and 1947 was directed toward simplifying and expediting bank operations. Under the new arrangements French banks agreed to accept each others' certification of ownership of registered securities, and even to accept the identification of the owner if a broker had certified the signature. Banks were permitted to sign for their customers such documents as receipts for securities, and the actual securities and coupons were to be cleared through a central office.

Even the French Treasury coöperated in the drive for simplification and economy. Simple Treasury checks were substituted for the "*mandats ordonnancés*" which had required special handling by the banks, and individuals were permitted to collect coupons from French *Rentes* by written order on their banks. Furthermore the law was changed to require all trade acceptances to be made payable at a bank or a post office, so that banks which held these bills on the date of maturity would not have the expense of sending out a clerk to collect. Such bills were also to be handled in the future by the clearing house. Another law gave encouragement to the use of the bank check by increasing the penalities against the overdrawing of accounts. Although any one of these measures considered by itself seems insignificant, their combined influence upon the efficiency of French banking operations would be considerable.

The improvements in banking techniques[7] which had been accomplished or were under way during its second year of operation made it possible for the National Credit Council to devote more attention to the urgent problem of credit control. Although the large size of the Council sometimes made it un-

[7] Sous-comité d'études techniques et de normalisation bancaire du Comité permanent d'organisation professionelle de banques, enterprises et établissements financiers, *Compte-rendu de l'exercice 1945*; and *1946*.

Centre d'enseignement technique de banque, *L'evolution des techniques bancaires de Septembre 1939 à Juin 1945*.

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wieldy, there was an advantage in having all the important credit-granting agencies represented when directives for credit policy were being formulated. The Bank of France, the Treasury, and the public and semi-public agencies were enabled, and indeed obliged, to work together toward a common end. It was no longer possible for the Bank of France and the *Caisse des Dépôts et Consignations* to work at cross purposes in the money market, as had occasionally happened in the inter-war period, when Treasury needs were pressing.

Throughout the war and post-war period the financial needs of the Treasury overshadowed the money market. The Bank of France had been forced by the Germans to finance the greater part of the costs of the occupation. After the liberation the Bank continued to be one of the chief sources of Treasury funds, since no government was strong enough to balance budgetary expenditures by taxation and loans from investors. Moreover the Monnet Plan for reconstruction and development envisaged an investment program for the year 1947 of 470 billion francs, of which 300 billions were to be furnished by the government or its financial agencies. About 14 billions for this purpose came from the net increase in savings bank deposits held by the *Caisse des Dépôts et Consignations*. The nationalized industries floated about 17 billions of new loans on the open market, and private enterprises were able to borrow another 50 billions. It is clear that heavy reliance on the Bank of France was the only resource to fill the gap left by inadequate tax receipts and savings. The loan without interest, the traditional price paid for its charter by the Bank of France to the Treasury, was increased from 10 billions to 40 billions in April of 1947. In addition to this loan, the Bank of France purchased directly from the Treasury short interest-bearing obligations in an amount which stood at 50 billions in May 1947, and rose rapidly past the legal limit of 100 billions, forcing the raising of the *plafond* to 150 billions in June and to 200 billions late in the year.[8]

Since there was little that the National Credit Council could accomplish in the field of government financing until a far-

[8] *L'économie*, July 3, 1947. *La Semaine Économique et Financière*, January 1, 1949.

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reaching fiscal reform was accomplished, it focused its attention upon bank loans to business men as the area in which most progress could be made in the fight against inflation. This type of credit was chosen as the point of attack because neither consumer credit nor security speculation presented any real problem at this time. Consumer credit in France has never enjoyed the kind of popularity which it has gained in the United States. Stock market speculation has often been a problem in France, but in recent years the proposals for nationalization of industry and banking have made the value of securities so problematical that investors and speculators have been discouraged.

In concentrating its attention upon commercial loans as the best point at which to attack the inflationary expansion of credit, the National Credit Council did not overlook the danger that production might be restricted if credit were too severely limited. On the other hand if bankers were to be guided only by the rules of liquidity and solvency, the total volume of credit would increase as prices rose, and widen the inflationary gap between goods and purchasing power.

Purely mechanical measures such as a limit upon the total amount of bank credit outstanding, or a compulsory ratio of loans to some other item on the balance sheet, were rejected in favor of qualitative control. This was to be exercised primarily by the banker himself under the guidance of a set of rules drawn up by the National Credit Council and administered through the Bank of France.[9]

The task of the banker in evaluating requests for credit was facilitated under the new régime by the information supplied by the *Service Central des Risques Bancaires.* This credit clearing house had been established as one of the first acts of the National Credit Council. By March 7, 1946, all banks and financial establishments were required to report to the clearing house (which had been set up at the Bank of France) all lines of credit outstanding to an amount of 30 million francs or more, with the nature and purpose of the loan, and the amount

[9] *Deuxième Rapport Annuel du Conseil National du Crédit,* translated in *Federal Reserve Bulletin* for August 1948, pp. 955 *et seq.*

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of the credit which had actually been used. This made it possible for the lending bank to discover the total of the customer's outstanding obligations, and thus make a better appraisal of the risk involved in a new loan. Two years later the minimum amount was raised to 50 million francs because of the inflation.

After January 1947 the information supplied to the credit clearing house had to be supplemented by a *dossier* including a recent financial statement of the borrower, a statement as to the use of the prospective credit, the probable time of repayment, the source of the funds to be used for repayment, the ratio of the borrower's own funds to the proposed credit, and evidence that the borrower could not finance himself by rediscounting acceptances in the traditional French manner, or by liquidating some of his own assets with particular reference to his inventory. This kind of information, which is taken for granted in American banking transactions, had in many cases not been supplied by French borrowers and could not have been obtained by French banks without a ruling from the central banking authorities.

Such information was valuable not only to the individual banker but also to the agencies responsibile for formulating credit policy. As early as 1946 the National Credit Council had urged bankers to reject credit applications, if the purpose was the building up or hoarding of inventories or the maintenance of balances abroad in foreign currencies. A little later the Council ruled that the Bank of France must give its assent before any borrower could secure bank loans totaling 30 million francs or more (later, 50 million francs or more). These amounts were the same as those which had to be reported to the credit clearing house. During the last quarter of 1947 when there was an especially sharp rise in prices the Council asked the banks for monthly reports on the division of outstanding credits between enterprises on the priority list and those not given priority, in order to prevent the use of credit for inventory hoarding by nonessential industry.[10]

The traditional techniques of central bank management were not abandoned, but were used with modifications to meet the

[10] *L'économie,* April 24, June 12, October 16, 1947.

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new conditions. The rediscount rate of the Bank of France which had remained during most of the war period at 1¾ per cent had been reduced to 1⅝ per cent in January 1945, a low point for all time. This rate remained in effect until January 1947 when an innovation was made by creating differential rates, after the example of the Federal Reserve Banks of the United States. A low rate of 1¾ per cent was established for the preferred categories of Treasury bills and genuine trade bills representing sales. All other bills were to be rediscounted at 2¼ per cent. At the same time the rate on security advances was raised from 2¾ to 3¼ per cent.

These changes marked not only an innovation in the use of the rediscount rate by the central bank, but also a change in the policy of cheap money which had hitherto been followed in order to reduce the burden of the enormous government debt. The fear of inflation was increasing, and later, in October 1947, the rediscount rates were again raised, to 2½ per cent for the preferred categories and 3 per cent for the others. They remained at that level until September 1, 1948, when they were raised to 3½ per cent, then a month later reduced to 3 per cent.

The effect of the differential rates was not very great, since most of the paper actually rediscounted represented Treasury obligations. The Bank of France at one point attempted to put pressure upon the commercial banks to include at least a few commercial bills among those offered for rediscount, in the hope that a genuine bill market could be revived. With the continuing borrowing of the Treasury, however, it was inevitable that the banks should prefer to use their government obligations.

Open market operations, which have been an important complement to central-bank discount policy in the United States and England, have in the past been viewed with little favor in France. They were explicitly sanctioned by the law of 1928, but had been nevertheless repudiated by some of the governors after that time. In the period after the Second World War there was no more discussion, and it was taken for granted that open market operations were a necessary instrument of credit policy as exercised by the central bank.

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During the latter months of 1945 the commercial banks were under pressure from their customers for more generous loans. The Bank of France, in order to make it unnecessary for the banks to sell *bons* from their portfolios, increased its thirty-day advances against acceptances of the *Crédit National,* and made one-day loans through the discount houses against Treasury obligations. These were not technically open market operations but were rather a substitute for them.

How extensive the open market operations were, after the nationalization of the banks, is difficult to determine with any precision. In the first place, the earlier concept of open market operations as changes in the portfolio of government obligations at the central bank, which took place on the initiative of the central bank, has had to be modified in a period when holdings of government obligations in the portfolios of commercial banks have largely displaced other forms of investment. Under such conditions the commercial banks take the initiative in many of the transactions in government obligations, and the old line of demarcation between rediscounting and open market operations is obscured.

In the second place, in France, the rediscounting and the buying and selling of government securities have been carried on by a number of other financial agencies of the government besides the Bank of France. The *Caisse des Dépôts et Consignations* has for many years taken the initiative in buying and selling Treasury obligations, in such a way at times as to counteract what the Bank of France was trying to accomplish in the same field. In more recent years the *Crédit National,* the *Crédit Foncier,* and the *Caisse Nationale de Crédit Agricole* have all held large amounts of government obligations. Even after the establishment of the National Credit Council it was not possible to classify all purchases and sales of government obligations by government financial agencies as "open market operations". In many cases the motive was not control of credit but the carrying out of legal requirements for the investment of certain types of funds, as for example savings deposits. The fact that the investing institution had no choice in the matter did not change the effect upon the money market. The National Credit Council, however, was able to compensate

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for some of these operations in government obligations by offsetting operations at the Bank of France and elsewhere.

As the inflation proceeded and the position of the franc worsened, it became evident that the relatively mild measures so far applied were not sufficient. The qualitative controls were therefore supplemented by quantitative devices. Early in 1948 the Bank Control Commission ruled that commercial banks should maintain a reserve against their demand obligations of 60 per cent, in the form of cash and bank balances, eligible paper and Treasury obligations. Any bank which fell below the required standard for reserves could be deprived of its rediscount privilege at the Bank of France.[11]

On October 1, 1948 the National Credit Council "invited" each commercial bank to keep its rediscounts at the Bank of France within the limits of a line of credit established for it by the Council on the basis of its position and its past record. At the same time the reserve against demand obligations was increased to 95 per cent, to be kept in the form of Treasury bills.[12] Any increase in the total of these liabilities was to be offset by an increase in Treasury obligations up to 20 per cent of the increase; while a decrease in the total might be met by a reduction of 80 per cent of the change, in the Treasury obligations held by the bank. These requirements effectually freeze the Treasury bill holdings of the banks and prevent them from serving as the basis of credit at the central bank.

The continuing progress of the inflation in France is sufficient evidence that the new controls over credit established by the Nationalization Act, limited as they were to certain types of business credit, have not been adequate to solve the larger problem, since they did not touch the difficulties created by large-scale Treasury borrowing or deficit financing. Moreover there is some question whether in the limited field of commercial credit they were entirely successful in stopping inventory speculation without interfering with necessary production. There is evidence that it was small business, and

[11] *Deuxième Rapport Annuel du Conseil National du Crédit*, translated in *Federal Reserve Bulletin*, August 1948, pp. *956 et seq.*

[12] *La Semaine Économique et Financière*, October 1, 1948.

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especially the small retailer outside of Paris, who found it most difficult to borrow from banks during this period, even for entirely legitimate purposes.[13]

*Nationalized Banks and the Free Sector*

The more tightly knit organization of the money market in France, as a result of the new agencies set up under the nationalization laws, and the new functions allotted to old agencies have obviously restricted the operation of the commercial banks and brought them under close control. When one attempts, however, to evaluate these laws in terms of the differences created between the nationalized banks and the free sector, the answer is not so obvious. The banks in the free sector are subject to most of the controls which apply to the nationalized banks, and the difference in their status seems to consist of little more than a difference in the ownership of their stock and the method by which the directing board is chosen.

One difficulty experienced by all the large banks in this period was that of increasing their capital. The fear that banks still in the free sector would soon be brought under the Nationalization Act operated as effectively in their case as the actual nationalization in the case of the others. The same factors were operating for industrial establishments as well as financial. The result was a double pressure upon the banks to find some other method of increasing their working funds so that they could provide the usual short-term credit to industry and in addition provide the funds which in other times would have been obtained by industry in the long-term market. To all this the progress of the inflation in France added a new kind of pressure on bank credit.

The banks met this pressure in part by increasing the proportion of their trade bills which they had rediscounted at the Bank of France. They also encouraged their customers to borrow by means of the discounting of trade bills, rather than by the use of advances, in order to provide themselves with bills for rediscount. This was a reversal of the pre-war trend toward declining use of trade bills. The banks also reduced

[13] *L'économie*, October 24, 1947.

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their holdings of government obligations, letting them decline from two thirds to one third of their total assets.[14] By these measures the banks were able to maintain a satisfactory position as regards liquidity, in spite of the difficulties of the period. The "*comptes de chèque*", which represent primary deposits of individuals rather than extension of credit by the banks, continued to decline, as did time deposits.

The danger that the nationalized banks would be forced to make loans to government-approved or government-owned enterprises, regardless of the ability of such enterprises to pass the usual tests for sound credit, had been clearly pointed out in the discussions which preceded the passage of the Nationalization Act. These fears proved to be not without foundation when, early in 1947, a nationalized gas and electric company applied for a loan from one of the nationalized banks. When the bank protested the refusal of the company to provide a financial statement later than 1945, the Minister of Finance ruled that since the loan was guaranteed by the government the bank had no ground for complaint.[15] How many such loans have been made by the nationalized banks under pressure from the government has not been reported, but the total amount involved is believed to be considerable.

Another type of demand was made upon the nationalized banks late in 1947, when there was organized the *Banque Française du Commerce Extérieur* to provide credit for foreign trade. They were required to subscribe to its capital of 500 million francs, as were also the Bank of France, the *Caisse des Dépôts et Consignations,* the *Crédit National,* and the *Caisse Nationale de Crédit.*[16] It is evident that the nationalized banks are being gradually drawn into the circle of government financial institutions whose chief function is to carry out policies determined upon without reference to the profit or soundness of the lending institution.

[14] *La Banque,* February 1948. *L'économiste européen,* August 8, 1948; August 10, 1947.

[15] *L'économiste européen,* April 11, 1948.

[16] *Deuxième Rapport Annuel du Conseil National du Crédit,* translated in *Federal Reserve Bulletin* for August 1948.

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In other respects, even the most violent opponents of the plan for nationalization have had to admit that the process itself was carried out with a minimum of disturbance to the banks or their clients, thanks to the "realism and impartiality" of the officers of the Ministry of Finance and the Bank of France charged with its execution.[17] Few changes were made in the operating personnel of the banks, and political appointments were avoided. Reports of the nationalized banks for the year 1946 hardly mention their changed status, except as it affected the stockholders. The *Crédit Lyonnais*, largest of the four commercial banks to come under the new law, stated that it "continued to enjoy the confidence of its important clientèle, and to carry out its former principles of liquidity for its portfolio and credit for its borrowers."

The relative position of the four nationalized commercial banks in the banking system as a whole seems to have been little altered by their new status under the law. The index of deposits for all commercial banks in France, on a base of June 1944, had risen to 282 by June 1947, and for the nationalized banks alone had increased to 285. It is true that the same index for six foreign banks, in the same period, had risen to 443; but this cannot be taken as conclusive evidence of their advantage over their nationalized competitors. The foreign banks had suffered a greater decline in business during the war and the occupation than the French banks. Moreover the foreign banks under the new legislation were subject to practically the same controls as the French banks, with the obligation to maintain their capital, to report their loans to the credit clearing house, and to keep special accounts for their operations in France. They could not, of course, be nationalized and to that extent they were in a better position than the French banks of the private sector which faced the prospect of nationalization.[18]

With respect to dividends the nationalized banks appear to have been at a disadvantage as compared with the private sector. The *Crédit Lyonnais* was obliged to pay dividends for the

[17] *L'économiste européen*, August 10, 1947; August 8, 1948.

[18] *La Banque*, May 1946.

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year 1946 out of its profits from the devaluation of the franc, while the profits of the two large investment banks in the private sector increased by about half over the previous year.[19] The banks in the private sector ordinarily publish their reports earlier than their nationalized competitors.

It seems evident that the nationalization of the banks in France has created the mechanism for controlling money and bank credit, but that its effects are as yet potential rather than actual. One recent observer has gone so far as to say that "In fact, up to the present, nationalization has not in any tangible manner modified the habits and structure of the French banking system." [20]

The basic problem in regard to nationalization of the French banks is how far this action can aid in the solution of the very serious problems with which the French economy is faced in its post-war reconstruction phase. Mere government ownership of the largest banks, or even of all the banks, cannot balance the Treasury's budget, reëquip French industry, right the trade balance, raise the standard of living. A good banking system which provides credit for production but not for speculation or hoarding, a money market in which the principal financial agencies are working together toward a common end and not at cross purposes, are valuable aids to economic recovery but will not by themselves guarantee recovery. The process of nationalization of the banks in France gave impetus to technical reforms in banking and to centralized policy in finance, and to that extent is an advantage to the French economy. But the basic problems remain to be solved.

MARGARET G. MYERS

VASSAR COLLEGE

[19] *L'économie*, May 22, 1947.

[20] Pierre Dieterlen and Charles Rist, *The Monetary Problem of France* (New York, 1948), p. 17.

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# PRIVATE FOREIGN INVESTMENTS: A MEANS OF WORLD ECONOMIC DEVELOPMENT

A LARGE part of the world now needs capital. In many countries during the war, capital equipment was destroyed, directly by military action, or was reduced to uselessness by depreciation and deferred maintenance. The productive equipment in many countries has been so impaired that starvation would be the lot of vast populations, were not food imported—food for which neither the peoples nor their governments can pay. With bare necessities supplied, the greater part of a population is able to work and, from the standpoint of the workers, support itself; but without capital equipment there may be no jobs. From the national standpoint, without adequate capital there are fewer products for domestic consumption and foreign trade, because the national efficiency is lowered. The vicious circle is complete; war, even victorious war, by destruction of capital creates national want. Those who can supply this deficiency must do so either as charity or investment. The amount needed throughout the world today to remedy these conditions can be measured in many billions of dollars.

There are countries in the world to which the word "rehabilitation" can scarcely apply, for they have never had enough capital equipment to maintain a good standard of living by efficient use of their own often ample natural resources. Additional capital will enable them to secure a greater national income by more efficient use of those natural resources. Those countries which have always been deficient in capital now desire a better standard of living; the American standard has become a goal which they hope to make a norm. Here, also, many billions of dollars could be employed.

A common misconception of capitalistic production is that the greater the capital the faster and more thorough is the exhaustion of national resources. This can be true, where the



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productive processes are used unscientifically in exploitation; and illustrations can be found in many countries including, unhappily, our own. But this is not universally true and never should be, for the conclusion overlooks the fact that adequate capital scientifically used preserves and restores natural resources, where replaceable.[1] Where they are irreplaceable, it lengthens their effective use and minimizes waste.[2]

In the world today the only country capable of supplying capital in amounts needed and on terms appropriate to present conditions is the United States. Already the amount advanced by the United States government and private United States sources since the war has been huge, and large advances will continue to be made. Yet by no means all of the funds spent by the United States can be considered "capital" for the foreign countries receiving it. Much must be used to provide a minimum national budget for those countries not yet able to support their populations, rather than to increase the per capita efficiency of the workers.

### *United States Post-War Aid to Foreign Countries*

Funds contributed by the United States are made up from various sources. These include: contributions to world relief from UNRRA; Lend-Lease after V-J Day; direct advances by the United States government; Economic Cooperation Administration payments; loans to foreign countries by syndicates of banking institutions, by the Export-Import Bank, and by the International Bank for Reconstruction and Development; investment by American businesses for development of foreign corporations in which they have acquired or are willing to

[1] William Vogt, *The Road to Survival* (New York, 1948), especially ch. 11.

[2] American scientific, capitalistic large-scale farming is less damaging to basic resources than "hand" farming; and the per capita production for those engaged in it is greater than the world average. For example, as of 1920, the average production of cereals per person engaged in agriculture in the United States was 12 tons; for the rest of the world it was 1.4. While later figures are difficult to secure, the capitalistic nature of American farming, that is, the increase in machines and other agricultural equipment, has continued. Department of Agriculture, *Graphic Summary of American Agriculture*, No. 878, by O. E. Baker (Washington, 1922), pp. 2 *et seq.*

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acquire financial interest; charitable contributions by numerous organizations, either in general or particularized to countries.

In all, between July 1, 1945 and June 30, 1948 financial assistance to foreign countries by the United States amounted to $21,219 million of which about $3,592 million, or roughly 17 per cent, was supplied from private sources. How vast this amount is can be shown by comparison with the total American-owned assets—$13,940 million—in foreign countries as of the end of 1939 (see Table 2). Thus the amount of financial aid flowing from the United States in three years since the war is half again as large as the accumulated total of all American investments abroad before the war began. It is about six times as large as the aid to foreign countries in a comparable period after World War I.

TABLE 1

NET OUTFLOW OF UNITED STATES FUNDS (GRANTS, LONG- AND SHORT-TERM CAPITAL) BY TYPES, JULY 1, 1945 TO JUNE 30, 1948

(In millions of dollars)

| Item | 1945 2nd half | 1946 1st half | 1946 2nd half | 1947 1st half | 1947 2nd half | 1948 1st half | Total |
|---|---|---|---|---|---|---|---|
| United States Government: | | | | | | | |
| Grants | 2,730 | 1,505 | 774 | 901 | 911 | 1,602 | 8,423 |
| Loans | 813 | 1,339 | 1,569 | 2,127 | 1,701 | 761 | 8,310 |
| Short-term balances | 85 | (161) | 27 | 265 | (193) | (214) | (191) [a] |
| | 3,628 | 2,683 | 2,370 | 3,293 | 2,419 | 2,149 | 16,542 [b] |
| Private: | | | | | | | |
| Grants (gifts) | 232 | 286 | 312 | 264 | 304 | 319 | 1,717 |
| Long-term | | | | | | | |
| Direct investments | 95 | 130 | 10 | 351 | 316 | 240 | 1,142 |
| Portfolio investments | 240 | (38) | (77) | (75) | (90) | 5 | (35) |
| Short-term balances | 30 | 120 | 190 | 234 | (7) | 201 | 768 [a] |
| | 597 | 498 | 435 | 774 | 523 | 765 | 3,592 |
| Dollar disbursements of IBRD and IMF | .... | .... | .... | 148 | 613 | 324 | 1,085 [c] |
| Total, all items | 4,225 | 3,181 | 2,805 | 4,215 | 3,555 | 3,238 | 21,219 |

Source: International Economics Division, Department of Commerce.

Note: Parentheses indicate an inflow of funds.

[a] Gold loans by the Federal Reserve System are included in this table as "Private: Short-term balances."

[b] Most Economic Cooperation Administration payments were made after the close of the fiscal year, June 1948, and are therefore not included in the above figures.

[c] The dollar disbursements of, rather than the U.S. contribution and subscription to, the International Monetary Fund and International Bank for Reconstruction and Development are shown in this table.

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*Type and direction of post-war investment.* Financial assistance by the United States government in the three years up to June 30, 1948, amounted to more than $16,500 million. One half of that amount was in the form of loans and the other half in the form of grants-in-aid. (See Table 1) The assistance contemplated under the European Recovery Program will add to the latter (grants) more largely than to loans. In addition, the United States government has contributed $3,385 million to the paid-in capital of the International Monetary Fund and the International Bank for Reconstruction and Development and has subscribed a further $2,540 million to the capital of the latter institution, which is subject to call under certain conditions. These contributions have been the principal basis for the dollar disbursements of $1,085 million made by those institutions.

Nongovernmental sources in the United States, during the three years up to June 30, 1948, contributed about $3,600 million to foreign countries, a little less than half in the form of grants or charitable contributions, and about half as investments, long-term and short-term.

Private funds for investment abroad in the form of loans were balanced, during the three years to June 30, 1948, by the inflow of capital from abroad for the purchase of foreign securities in the United States. (See Table 1) Those purchases here might be characterized as a repatriation of securities previously sold in this country. Private funds for investment in the form of direct investments resulted in a substantial outflow —more than $1,100 million.

In 1947, for which year more detailed information is available, the total outflow of private long-term investment capital from the United States was $501 million, exclusive of the purchase of $243 million of International Bank debentures. New loans totaling $153 million were less than half the total of outstanding foreign loans retired and repatriated. Long-term banking claims on foreigners increased $76 million. Direct investments abroad amounted (net) to $666 million, although a special type of investment, the purchase of ships for the use of American-owned foreign-flag operators, accounted for $124 million of that total. Investments in the petroleum industry,

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exclusive of additions to tanker fleets, totaled $353 million. More than two thirds of the petroleum investments were made in Venezuela and the Middle East. Of the investments other than those in the petroleum and shipping fields, 40 per cent were made in Brazil and Argentina.[3]

This concentration of new investments in the petroleum industry is significant because it shows that, when safety of principal and the possibilities of profit are combined, large private investments follow. As an indication of the magnitude of their operations, representatives of the industry recently stated that the oil companies contemplate investing about $1,750 million in the Middle Eastern companies in the next five years.[4] These figures relating to the oil industry, striking as they are, should not obscure the fact that other types of investments were sufficiently large in a few countries so that, if they had only been possible in more countries, the capital involved might easily have equaled that concentrated in petroleum enterprises.[5]

*American-owned assets in foreign countries.* The most striking change in the character of American-owned assets (including claims for repayment of loans) in foreign countries in recent years is the very great increase in government-owned assets and the relatively small increase in private investments. In Table 2 it is shown that government loans and credits to foreign countries rose from a negligible figure in 1939 to more than $1,600 million at the end of 1945 and then, as post-war

[3] Data in this paragraph are based on *Foreign Commerce Weekly*, Aug. 21, 1948, "Movement of Private U. S. Capital to Foreign Countries in 1947".

[4] *New York Times*, Dec. 8, 1948. A statement attributed to executives of the Arabian-American Oil Co. and the Trans-Arabian Pipeline Co.

[5] For example, the *New York Times*, Dec. 20, 1948, reports that steel companies in the United States are developing properties in Venezuela which by late 1949 will be valued at about $60 million. The petroleum investments, and these investments in iron mines, are largely in countries which do not look with disfavor on private investments. These enterprises are also engaged in producing commodities needed in the United States, while the possibilities of new investments in these fields in the United States are limited. (On the other hand, the manufacturing field, for example, has considerable opportunities for profitable investments at home; and the obstacles to foreign investments are numerous in foreign countries wherein markets exist for manufactured goods in volume large enough to justify local manufacture.)

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lending really expanded, rose again in two years to $12,100 million at the end of 1947. The latter total included about $3,400 million subscribed to the Bretton Woods organizations. At the same time, total private investments increased from $13,900 million at the end of 1939 to $16,700 million at the end of 1947. Most of the increase in private investments has been in direct investments in Latin America and the Near East. The increase in government-owned foreign assets exclusive of the subscriptions to the Fund and the Bank has been mostly in Europe, particularly as a result of the loans to the United Kingdom and France.

TABLE 2

ESTIMATES OF AMERICAN-OWNED ASSETS IN FOREIGN COUNTRIES, END OF 1939, 1945, AND 1947

(In millions of dollars)

| Type of asset | 1939 | 1945 | 1947 |
|---|---|---|---|
| Private investments: | | | |
| Long-term | | | |
| Direct investments | 6,750 | 7,600 | 9,400 |
| Other | 6,100 | 7,200 | 5,700 |
| Total, long-term | 12,850 | 14,800 | 15,100 |
| Short-term | 1,050 | 900 | 1,600 |
| Total private investments | 13,900 | 15,700 | 16,700 |
| U.S. Government assets: [a] | | | |
| Long-term | 40 | 1,600 | 11,700 [b] |
| Short-term | ..... | [c] | 400 |
| Total, U.S. Government assets | 40 | 1,600 | 12,100 |
| Total, American-owned assets | 13,940 | 17,300 | 28,800 |

Note: The 1939 and 1945 data were taken from Treasury Department, "Census of American-Owned Assets in Foreign Countries", 1947, p. 9. The 1947 data are from Department of Commerce, press release OBE-142, August 26, 1948, United States investments abroad. Although the data for 1945 and 1947 are not fully comparable, the differences are not great enough to affect the analysis in this article.

[a] Exclusive of obligations arising out of World War I and unsettled Lend-Lease accounts.

[b] Including $3,385 million subscription to the International Monetary Fund and International Bank for Reconstruction and Development.

[c] Not available as a separate item.

The post-war pattern, that is the concentration of private investments in extractive industries and in underdeveloped areas, differs from that of pre-war years. Then private American-owned foreign investments were normally concentrated to a considerable extent in the industrially advanced areas of the

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world.[6] Two thirds of such assets were located in Europe and Canada in about equal amounts. The highly industrialized countries of the United Kingdom and Germany had, before World War II, attracted more American capital than any other country except one, our neighbor, Canada.

While, in absolute terms, investments were concentrated in the developed areas, American investments in the less well-developed areas were far greater than in Europe, proportionally to total capital investments (the capital equipment of the country—domestic and foreign-owned). At the same time it is apparent from the available data that American holdings of noncontrolling interests in the securities of European and Canadian corporations were much larger than in those of Latin American corporations or those of Asia and other underdeveloped countries, both in terms of value and proportionally to total American-owned assets in those areas. The significance of these facts will be alluded to in a later section.

### *Why Foreign Investments?*

The motivation of these post-war foreign investments, as well as their character, differs greatly today from what it was fifty, twenty-five or even ten years ago. The reason is the vastly increased volume of intergovernmental loans made primarily for reasons other than financial returns.[7] At earlier periods the generalization could be made with considerable accuracy that foreign investments were made because there was the reasonable expectation of greater profits from foreign than from domestic investments. That statement is still generally true with respect to private investments, although it has always needed some qualification and still does. Other motives than larger returns, for example protection of an already operating business in sources of raw-material supply, even noneconomic

[6] The facts in this and the following paragraphs are from Treasury Department, *Census of American-Owned Assets in Foreign Countries* (Washington, 1947), Table I, pp. 67-69.

[7] It is, perhaps, unfortunate that outstanding intergovernmental loans and the government ownership of foreign properties or other assets have been grouped with, and loosely classified as, foreign investments. They are merely part of the foreign assets owned in the country.

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reasons, such as sentiment and prestige, sometimes are influential in causing foreign investments.

Governmental investments in foreign countries have a different motivation. They have a superficial appearance of monetary return by specifying an interest rate, but interest is charged on intergovernmental loans not so as to make them profitable but to make the loan more palatable, politically, in the home country of the lender. The oft-used phrase "United States government investment" or "loan" is an euphemism. We never have had any federal policy of "investing" taxpayers' money for the sake of future return. From the taxpayers' standpoint the sounder public finance would be to lower taxes or reduce the national debt. We recognize the moral responsibilities of a more fortunate position in a post-war world and are moved by enlightened self-interest; we have legitimate economic ends in creating demands for American exports, which may be served initially by a foreign governmental loan.[8] We should face the fact that most governmental loans and grants-in-aid since V-J Day were for some object, to achieve which we have been willing to make an expenditure of government funds; that the commercial terms attached have been with hope that they may be met in whole or in part, and that the taxpayer may be offered that much relief.

There are various types of governmental investments but the motivation is usually the same. The investments of the British government in the Near East oil fields have been made to further political ends—to control sources of fuel needed by the Royal Navy. The fact that the investments have been profitable has been fortunate but not determining. The United States government invested heavily in manganese production in Cuba, not because of any chances of profits, but because supplies of that metal were needed during the war, regardless of cost.[9]

[8] As for example, loans by the Export-Import Bank.

[9] The British investment in the Suez Canal and the American investment in the Panama Canal are examples of a somewhat earlier period. Both facilitated trade; both were implements of national defense.

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So far, this brief and necessarily condensed discussion of the reason for foreign investments has been limited to the investor side. From the foreign country's standpoint, there are two major reasons for favoring foreign investment within the country. Both are primarily economic and social. First, foreign investments permit the development of the resources and industries of a country earlier than would otherwise be the case. New and underdeveloped countries are lacking in both capital and skills. Both can be developed slowly through the gradual accumulations of the years, but in some areas it is conceivable that such development would take centuries. Private foreign investments bring the capital and the skills and, by creating larger local income and a broader range of activity in the country, can hasten the process of local accumulation of both capital and skills.

Second, foreign investments permit the development of the resources and industries of a country without tremendous sacrifices by the people. Totalitarian governments have frequently expanded the production of their countries greatly, with almost no assistance from foreign capital, but only on the basis of unnecessary suffering by their citizenry. In other words, goods for export to secure foreign exchange and capital goods that could have been purchased with foreign capital were produced instead of goods for domestic consumption. Only totalitarian governments could force such privations on their peoples; only governments that deny the rights and dignity of human beings ask for such privations.

So far attention has been concentrated on the necessary and significant but nevertheless abnormal phase of post-war rehabilitation. If this salvage from the wreck of war is successful, the foreign countries will not need further grants-in-aid but can finance themselves as countries normally do on a reinvested surplus basis—a method by which most risk capital must be acquired by any country—and by commercial borrowings. Then the foreign countries which want American private capital, offered if at all solely as an investment, that is, expectation of income and legitimate return of the principal, must seek it in the market place. Only commercial considerations apply

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in the market place; rates are a product of bargaining, not a matter of favor or right.

If our efforts at rehabilitation are not successful, the unhappy country must inevitably slip to a lower economic level commensurate with its ability to produce. Should those countries we have sought to help dissipate this assistance and continue in avoidable need, we have but pauperized them, and the American taxpayer will rightfully refuse to bear further the additional taxes on his own industrious efforts to subsidize the lack of theirs. Some countries to which a helping hand has been extended in their post-war need have shown an earnest desire to build and re-create, and their progress is gratifying.

We are now concerned with the future and must here consider what part private American capital should play in financing capital projects and the reasons why it is not presently filling that rôle. This question may be divided into two parts. First are private loans, or the flotation of foreign securities in the capital markets of the world. Since these offerings are usually issued in relatively small denominations, and the units are bought and sold freely, frequently listed on organized exchanges, they are called portfolio investments. Such loans by large numbers of persons, each by his purchase of bonds supplying a relatively small amount, presupposes that funds invested will be managed in the foreign country and usually by foreign managers. The American bondholders are merely the lienors of a foreign enterprise or creditors of a government and more often than not are without the ability to enforce their rights as such, in case of financial necessity. Second are private direct investments, or investments by private capital involving control of business enterprises in foreign countries. This type of foreign investment usually presupposes a large unit investment by one company or syndicate.

### *Private Foreign Loans—Portfolio Investments*

There has been virtually a complete stoppage of private foreign loans in the United States since 1931. The very few loans which have been made were by the large commercial banks and insurance companies. There have been no public flotations of foreign securities of any magnitude since the end of World

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War II. On the other hand, the redemption and repatriation of outstanding issues have amounted to substantial sums. The repatriations have indicated that, at existing prices which are quite low, the majority of the foreign securities bought and sold in this country are more attractive to foreign investors than to United States investors.[10]

Several factors are responsible for the absence of new portfolio investments abroad. First, there is a general distrust of foreign bonds, with many selling at substantial discounts in the United States. For example, Australian and Norwegian 3½ per cent bonds, issues of countries with excellent debt records, as of February 1949 were selling at 91 and 80 respectively. Brazilian 3¾ per cent and Colombian 3 per cent bonds, issues of countries which defaulted in 1931 but made reasonable adjustments, were selling at 62 and 37 respectively; while the Peruvian 6 per cent and the Yugoslav 6½ per cent bonds, still in default, were selling at 19 and 6.

This distrust of foreign bonds is based partly on experience and partly on the failure of investors to appraise intelligently the inherent worth of individual issues. At one time more than 50 per cent of all outstanding foreign dollar bonds [11] were in default; and about 48 per cent are in default at present, despite the adjustments that have been made. When all non-Canadian foreign dollar bonds are considered, the losses suffered by investors have been substantial, although there are a number of issues whose records merit considerable confidence.

A second reason for the absence of new private foreign loans is the international political tension, based partly upon differences in ideologies and partly upon domestic political instability. Conflicts of these kinds have made the effective administration of government difficult and have contributed to a lack of balance between governmental revenues and expenditures. This has helped cause exchange controls and defaults on bond service to remain longer than they otherwise would have.

[10] These statements are without reference to repatriation of outstanding dollar bonds by debtors (principal obligors on the bonds), as to which they were in complete default.

[11] To be distinguished from estimated holdings in the United States.

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Foreign countries have insisted on low rates of interest on their borrowings and have succeeded to a considerable degree because the United States government, and other governments able to lend, have charged only 2½ to 3½ per cent on loans. The International Bank has charged 4¼ per cent. In contrast, after World War I, first-class risks were required to pay 5 and 6 per cent while greater risks had to pay up to 10 and 12 per cent. Such yields appear necessary again in order to attract money into the foreign bond market, where yields such as 8.29 per cent for Denmark, 4.54 per cent for Australia and 7.51 per cent for Brazil are representative of market evaluations as of February 1949. Futhermore, since the war there have been ample opportunities for investments at home, yielding returns too high to make the rates foreign countries are willing to pay seem attractive.

### *Private Foreign Direct Investments*

Direct investments in foreign countries, in the past, have attracted less general attention than publicly offered foreign loans. Yet, they have been a more effective means of developing the industries of foreign countries and have generally resulted in large aggregate foreign investments in underdeveloped countries. They are not, for example, subject to automatic repayment provisions; when successful, they generate some of the means of financing their own expansion. In fact they normally are made with the expectation of developing industry by internal expansion as conditions warrant. Foreign direct investments embrace such outstanding developments as the nitrate and copper mines of Chile, the petroleum industry of Venezuela and the Near East, manufacturing plants of wide variety in Europe and Latin America, hydroelectric installations and nickel mines in Canada, and the sugar and banana plantations of Cuba and Central America. They constitute a substantial part of the total invested capital of many countries, including, for example, Canada, Peru and India.

*Unfavorable attitude of some countries toward foreign investment.* Certain foreign countries, and in particular those relatively underdeveloped ones in greatest need of assistance through foreign investment, have assumed attitudes and

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adopted measures which are serious obstacles to new private investments. However lacking in enlightened self-interest these attitudes may be, they have some historical basis and should be considered.

Perhaps chief among the reasons are unfortunate experiences with foreign investments in the past. These cannot be lightly waved aside as only "events in history". The Near and the Middle East associate, with foreign investment, the system of "capitulations", and the Far East, particularly China, the system of "extraterritoriality". These systems were once undoubtedly economic measures. Furthermore, they grew from small beginnings and their power enlarged as the amount of the capital invested and the number of foreign persons within those countries increased, and in a later period their principal usefulness was to insure political controls which tended toward maintenance of monopolies. These systems may have been only indirectly related to economic matters for the protection of the instruments of private capital and of the foreigners, living outside of their own country, concerned with the operation of that private capital. In general, these arrangements as complete governmental units are disappearing. There are remnants of these practices, however, which still require governmental alertness. Some of the old concession contracts still remain in force; and wherever they exist, they contain certain elements of extraterritoriality.[12] For example, they often include provisions for police or security forces, under the control of the concessionaire. Futhermore, these concession contracts usually call for rights over land equivalent to "eminent domain", in order that lands may be taken whenever they are needed for the purpose of the concession.

Investments of the concessionaire type are usually very large. Sometimes they require the movement of a large foreign personnel. And it is understandable that the owners wish some protection against the political risks involved and that the executive workers look to their employer wherever there is physical

[12] Extraterritoriality and comity in the treatment of foreign capital are not included in the scope of this paper.

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danger. Although all of these concessions of the past are understandable, and many at least can be justified as of the time they were first used, there is need of some safeguard against the assumption by private capital of governmental functions which are not required for the normal and effective administration of the enterprise.

Although India has been the great example of the good and the ill of industrial development through foreign investment, the Western Hemisphere has also had its historical incidents. The nonpayment of interest on private bond investments has several times been the basis for military threats by the governments of the investor countries. Holders of foreign direct investments, which in certain of our smaller neighboring republics were the most powerful and sometimes the only powerful concentrated economic factor, occasionally assumed political functions and dominated governments for their own selfish interests. There are, however, two obvious examples where large aggregations of foreign capital have been followed by none of these unfortunate incidents. Canada was developed by foreign capital in large aggregate amounts, without fear or threat of domination, with no undermining of its legal or political control. Furthermore, we must not forget that the early development of the United States would not have been possible without the investment of foreign funds and that, even in such governmental institutions as the First and the Second United States Banks, foreign investors held a large proportion of stock.[13]

Backward countries in need of capital usually must concentrate at the beginning of industrial development in the extractive industries; and here can be found a strong national prejudice. There is a feeling that manufacturing establishments bring something new to the country, while mining and other extractive industries take something away. The facts are contrary: first, the investment of mineral and petroleum companies in building and equipment is sometimes larger, in relation to gross income and operating income, than that of manufacturing companies; and, second, the companies in the

[13] Margaret Myers, *The New York Money Market*, vol. I: *Origins and Development* (New York, 1931), pp. 19 *et seq.*

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extractive industries generally supply foreign exchange in greater amount than that needed for their dividends, whereas manufacturing companies are usually net users of the foreign exchange resources of a country. This preference for manufacturing industries may arise partly from the idea that their profits are not as large as those of the extractive industries and that the large-profit organizations should be reserved for domestic capital. The difference is not as great as supposed, although the amount of profits does favor the extractive industries. By way of example, it may be pointed out that, in 1943, the average yield on American manufacturing, mining and smelting, and petroleum investments abroad was 4.5, 8.5, and 5.6 per cent, respectively.[14] The higher earnings are partly offset by greater risks and difficulties connected with extractive enterprises. The certainty of larger profits probably is based on the fact that the extractive enterprises are usually primarily engaged in exporting their products for payment in foreign currency, which often makes it possible for them to retain their profits without the necessity of applying for foreign exchange to the local exchange authorities.[15]

The more flagrant illustrations of capital exploiting a government are drawn from experiences of years ago.[16] But whenever such an incident occurs, the results of prejudice lie heavy on both the foreign government and its population, and the frequently violent efforts by the country or populace to change such conditions are not forgotten by the capital investor. The wrongs mentioned must necessarily be corrected by natural evolution of society and business; and, whether the attitude is good business or good morals, capital gradually assumes a greater responsibility toward the system which it serves and the persons who operate it and are dependent on it.

Furthermore, until the time of the recent war, international political thinking no longer condoned the domination of weaker

[14] The Department of Commerce, Economic Series, No. 65, *International Transactions of the U. S. during the War, 1940-1945*, prepared under the direction of Robert L. Semmons, Table 17, page 211.

[15] For foreign exchange controls, see *infra*, pp. 237-240.

[16] Eugene Staley, *War and the Private Investor* (New York, 1935).

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countries by foreign governments or corporations. There has been a resurgence which it is hoped may be but temporary. These new techniques, however, which seem to be in process of experimentation since the war, are the offspring, not of capitalism, but of communism.[17]

The pendulum swings. When considering foreign investment now the greater danger is exploitation by the government of the foreign country in which the funds are invested. The desire to prevent conditions which have existed in the past and cannot exist in the future, save as manifestations of invasion and political domination, has resulted practically in the expulsion of foreign capital and in repelling new investment, except on a government to government basis.

### *Major Hindrances to New Foreign Investment*

There is no hard and fast classification of legal or administrative obstacles which have been placed by foreign countries in the way of foreign investment. If the intent is to drive out foreign capital or private enterprise, the obstacle is fundamental; it is minor when it results from protection of some phase of local economy or from temporary dislocation. The legal and social conditions, therefore, are those which discourage foreign investment.

Under communism the laws, and the social philosophy underlying them, are so hostile as to prevent foreign investment. They likewise prevent domestic investment as they deny private property, although sporadic exemptions have been noted. In the early days the Soviet government, being desperately in need of capital, endeavored to attract foreign capital; but favorable conditions did not exist under its laws. It would not grant the necessary elements of extraterritoriality, and the effort soon failed. It does not appear that Soviet Russia has recently endeavored to get or now expects any foreign investment.

Perhaps the greatest immediate obstacle to private foreign investment is the present conflict in ideologies between the East

[17] The countries of Latvia, Lithuania and Esthonia may be cited as extreme illustrations.

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and the West. Not only does this preclude any investments within Soviet Russia, and in the countries dominated by Soviet Russia, in many of which foreign investments have previously been made, but it is an obstacle to new investments in continental Europe. So long as this conflict creates within Europe instability and fear of international war, the conditions for investment of capital cannot be met. Heavy armament expenditures and diversion of manpower to armed forces place a heavy burden on the economy. Not only is there actual danger to the capital invested, but these economic conditions tend to make operation of capital unprofitable and remission of profits, if earned, impossible. So severe may fear be that present capital may be allowed to depreciate. When such conditions exist, a country may without any change of its own ideology be forced into a nationalist viewpoint. If it cannot attract foreign capital, if its own citizens will not save and invest but prefer to get their funds out of the country if possible, a government may be forced to go into industry itself to supply the capital needs of its citizens, or at least to attempt to. We need not consider this further; for when this tendency has become a dominant policy, foreign investment is ended.

Objection to foreign investment may lie in an antiforeign nationalism. Nationalism, with its basis in patriotism, is the ready tool of the local politician who can always make an appeal to the unthinking and arouse their hatred against people they have never seen and about whom they know nothing. Many extreme nationalists would rather see an economic resource remain undeveloped, and workers living in poverty, than see it developed by private foreign capital, with greater advantage to the country itself and higher living standards for its people. Unthinkingly, the laboring class within that country is led to favor such perverted policy, because workers are taught to believe that in this manner they are somehow defending their self-respect and their liberties.

There are varying degrees of nationalism, and it takes many forms. In some countries it has gone only so far as to limit foreign capital's entrance into certain fields; and here it is hard to say whether any particular industry should, as a matter of

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sovereignty and for protection of the national interest, be reserved to domestic capital and operation. Thus, in some countries, strategic and military industries are so reserved; and it would seem that this may be entirely proper. Added to the list, however, are found public utilities for which there is less reason for local ownership. In other countries, raw-material production is not permitted to foreign capital, although this prohibition has no reference to any local conservation laws.

The more extreme nationalism manifests itself in nationalization of industry.[18] Even this may mean different things. It has proceeded furthest in Eastern Europe where privately owned industry has almost disappeared, and communal organizations of agriculture have made great advances. In France and the United Kingdom, and in other countries, several important industries have been nationalized. Here domestic interest and not foreign investment was largely involved, and compensation for losses by this policy has been made with considerable promptness. These countries favor private capital as a basic idea, and the policy of partial nationalization is still on trial. In underdeveloped countries, however, nationalization programs usually affect foreign investors and immediately give rise to considerations with respect to compensation. Even where the foreign investor receives compensation, such payment is often ineffective since it cannot be converted into currency of his

[18] Nationalization and expropriation in Latin America have been numerous and costly to investors. They have had a serious deterrent effect on new investment and cast a shadow upon the great interest which the foreign countries now have in securing foreign investment. In 1937 and 1938 respectively, Mexico nationalized the major railway lines and petroleum companies. Since the railways were not valuable as income producers, compensation for their seizure in the form of new securities was not objected to seriously. The expropriation of oil companies did affect profitable foreign-owned properties. No compensation was granted for about four years and was to be made then in several annual installments. Furthermore, the compensation covered only the depreciated cost of physical installations. Conditions similar to those in Mexico mark the expropriation of petroleum properties in Bolivia. In Argentina, likewise, certain foreign-owned public utility enterprises were seized, this being exclusive of the purchase and nationalization of the British-owned railways, paid for in blocked pounds in England, owing to Argentine interests. See also "The Anvil of American Foreign Policy", by Frank Tannenbaum, POLITICAL SCIENCE QUARTERLY, vol. LXIII, No. 4, Dec. 1948, p. 501.

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own country. Frequently these nationalizations have been of sufficient political significance to divert the attention of an unfortunate populace away from the basic inefficiency of its own government.

It should be remembered that most large installations of capital in foreign countries are made under solemn agreements, as to the length of time and the nature of the concessions of land and the like. Such agreements are abrogated wholly when expropriation takes place.[19] Although it is recognized that differences exist as to concepts of eminent domain and judicial enforcement, these are not sufficient to explain such acts of expropriation. What is important is the spirit in which the action is taken and the effect upon the welfare of the country, not the least of which is its greater difficulty thereafter in attracting foreign capital.[20]

### *Minor Hindrances to New Investments*

In addition to what may be called the major impediments already considered, certain minor impediments must be removed if foreign investment is to be encouraged. Antiforeign propaganda is one of these minor impediments. The demagogue seeking political power can always create in imagination a "foreign devil"; and calling upon unfortunate events of the past, with the aid of unrestrained imagination, can create antagonism which is destructive of good economic, particularly labor,

[19] In Mexico all concessions were for fifty years, after which all properties reverted to the state free of charge. Only Mexican nationals or companies had the right to obtain concessions. All sales of power should be under tariffs fixed by the Minister of Economy. Companies could not issue bonds without government consent. Some slight relief from these rules was granted in 1941.

[20] In Mexico, for example, after expropriation few people, not even domestic capitalists, cared to risk new investments. Foreigners tried to withdraw them, and citizens sent capital abroad for safekeeping. The government did little to stop this flight of capital, ultimately to its great disadvantage; and in 1937 established a Federal Electricity Commission, which pointed toward the probability of ultimate government ownership, and in 1938 passed the Federal Electric Power Law. The electric rates in Mexico were supposed to yield a rate of 6½ per cent, the equivalent of the yield on government bonds. Actually, however, by delays and inefficiencies, the rates did not provide even half of the authorized amount.

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relationships. Minor violations of property rights by local governments can become sufficiently annoying to be a real drain upon the effective operation of a business. Sometimes this anti-foreign attitude leads to requirements that foreign investors relinquish the right to appeal to their own governments for diplomatic protection. This latter requirement is common in Latin America. It is right and proper that foreign capital should be governed by local law, where not inconsistent with property rights; and it should know what this is before it takes the business risk. But what is here referred to is the abrogation of recognized amenities between countries.

Foreign capital frequently encounters the requirement that local capital participate with it. This may be based upon the fear that local capital will be excluded from the best investment opportunities; but usually, depending upon the attitude of the government and people, this makes an uneasy partnership. Laws of this kind, however, are common. The government of India in a statement of industrial policy [21] says that foreign capital may participate in certain phases of the industrialization of India, but that as a rule the major interest in ownership and effective control should always be in Indian hands. The government of Pakistan, through a statement to the press made by the Minister of Commerce on April 2, 1948, ruled that nationals of Pakistan should ordinarily be given the option to subscribe to 51 per cent of all classes of share capital and debentures in major industries and to 30 per cent in other industries. If the government is satisfied that the requisite amount of indigenous capital is not forthcoming, the balance may be subscribed by foreign investors. Similar requirements can be found in Egyptian law and relate to issues of security at the founding of the company or when increasing its capital.[22]

[21] "Industrial Policy of India", resolution appearing in the *Gazette of India*, April 6, 1948, reissued in mimeographed form by U. S. Department of Commerce, June 22, 1948.

[22] A report to the Senate Committee on Finance by the National Advisory Council on International Monetary and Financial Problems, presented Dec. 18, 1947, entitled "Foreign Assets and Liabilities of the United States and Its Balance of International Transactions" (p. 123).

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A trend toward this same attitude may be observed in the commercial laws of China promulgated in 1946.[23] Certain regulations in Mexico and other Latin American countries differ only in details.

Obviously all this tends to reduce the amount of available capital and to confirm the suspicion that foreign capital is not wanted and will be taken only if there is no other source. Local capital and foreign capital may differ not only as to management but also as to fundamental policy. Foreign capital may anticipate a long-time investment; local capital may wish quick profits and object to reinvestment of earnings at the expense of higher dividends. At times such legislation is used as a means of driving out foreign capital by requiring that, in reorganization or expansion, local capital be permitted to acquire control. Foreign capital is apt to be unwilling to be managed wholly by local executives. American investors feel they cannot jeopardize their capital by a management over whom they have no control and in whose business judgment they may have little confidence. Yet at this point the investment cannot be withdrawn.

History has shown that in a competitive free-enterprise economy, local capital will gradually acquire control of most enterprises, in any event. This process, as a result of natural forces, has no deleterious effect either upon the foreign capital or upon the country. In the United States and other countries, where conditions have generally been favorable to private enterprise, it is the exception rather than the rule for enterprise established by foreigners to remain in foreign control for many years.

Capital itself should determine what part it should have in any business in which it is to invest. This will differ for different enterprises, and rigidity in the law governing the relations of foreign and local capital is uneconomic. Some companies investing abroad have a rule that they prefer a minority interest in developed countries or in enterprises which are of a less speculative nature and are reasonably self-sufficient.

23 The Company Law of China, promulgated April 12, 1946, English translation by C. Y. C. Chang.

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Others want complete control. Where major policy decisions must be made, endless difficulty in viewpoint creates inefficiency to the point of complete collapse.

Some companies operate with relatively small resources but under contract for technical services. Here the investment of foreign capital is small, while that of local capital is large. The risk here is small and considerable flexibility in withdrawing is possible. Such minor participation is not always possible, however, because local capital may be insufficient.

In some countries labor laws require that a certain specified and large proportion of the workers be citizens of the country. The purpose is to make sure that local labor shall have an opportunity not only to secure employment but also to acquire industrial skills and to advance in salary and responsibility. The statement of the government of India is an example on this point. It specifies: "In all cases, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon."[24] In general if the laws go no farther, they merely create a norm which would be more than met in any event. Most United States corporations operating abroad state that their policy is to train personnel in the foreign country to as large an extent as possible, reserving to Americans only a few of the higher positions of responsibility. But such legislation sometimes goes farther and provides that the right to hire and fire employees, to promote or demote them, can be exercised only with the concurrence of labor unions and in accordance with seniority rules.

Occasionally labor laws, which ostensibly aim to give to the workers of the country a fair share in industry, merge into social legislation. This is not bad in itself; in fact it can be commended as a goal, and many of the provisions in the foreign countries are modeled on our own laws or upon customary rules between labor and management here. Among them may be listed vacations with pay, separation allowances—frequently larger than is customary in the United States—maternity leave with benefits, insurance, health, and educational facilities. These are good in their basic intention; but countries desiring

[24] Industrial policy. See footnote 21 *supra*.

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for their populations a standard of living comparable to that of the United States have felt that they could achieve it merely by legislating that it be so. The means of accomplishment are lacking. Production within a country, whether it be by local or foreign capital, is burdened to the point where the product can be sold only at a price beyond the reach of potential buyers. In such an instance foreign capital should beware; it would be welcomed as the goose which lays the golden egg and is likely to meet the fate of that fabulous bird.

Vested interests in foreign countries should be considered separately, although the difficulties which arise are often a combination of some of the factors already considered. In certain underdeveloped countries discrimination by race or caste exists. In others an almost feudal system of industry prevails. Agriculture and much of the industrial production are under the control of a few families. The most notable example of this was Japan, where it is commonly said that six families controlled the vast majority of all industrial enterprises. These were sufficiently large, powerful and, it must be admitted, so well run technically that they were able to secure foreign capital. In many countries, however, this is not the case; and business men having vested interests want neither competition with their business nor any changes which affect their labor supply. One hopeful sign is that these feudal lords are entering the manufacturing field more and more, are retreading unconsciously the path of the industrial revolution. They are beginning to see the need for larger national income and broader distribution of it in order to increase the market for their own products. In attaining the goals desired, such economic development is inevitable, and, therefore, enlightened governments should foster it, since otherwise the change may take decades.

Government competition with private enterprise—another minor impediment—is the result partly of the growth of ideas of nationalization and partly of the necessity for the government to act when private enterprise cannot or will not. To the extent that government competition develops out of the idea of nationalization, it is an effective obstacle to new investments. In many underdeveloped countries, however, the rail-

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roads had been losing money for years, and new investments were needed to continue operations and to tap new areas. Private enterprise was unwilling to take the risks, and government ownership has followed in many cases. In Argentina, for example, the fact that blocked sterling could be used in compensation was a further stimulant to such transactions. Part of the trend toward government ownership of railroads is the result of limitations of profits. Public utility enterprises have also been recognized in many countries as a field for government investments.[25] The social importance of an industry and its noncompetitive nature are considerations in determining governmental regulation, control or ownership. The limitation of public utility profits is common in most countries and often results in profits so low that new private investments are not forthcoming.

Recently Latin American governments have been organizing development corporations, partly to stimulate industrial growth and partly to get the government in business. Some of them, such as the Chilean and Venezuelan, are supposed to assist, by loans or by participations, private capital to establish industries. Furthermore, they are expected to sell their interests in these enterprises to private capital whenever possible. To some extent development corporations have served both purposes. In some countries commissions and other organizations have been set up to compete with private enterprise, as in electrical development in Mexico, in the petroleum field in Argentina, and in many types of business, manufacturing included, in Brazil. Sometimes government organizations are granted monopolies in certain businesses, such as the distribution of petroleum in Spain.

It would be wrong to say arbitrarily that any particular industry is unsuited for private capital or for government enterprise. The fact that, under given conditions, private capital will not venture into a certain field should first lead to inquiry as to the reason. It may be that the field of endeavor concerned is so clearly a social duty in a particular country that all people, not merely those directly affected by its operations,

[25] Cleona Lewis, *Foreign Investment Problems* (Washington, 1948).

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should pay for it. Many argue that government investments in various industries are needed as leaders in getting things started, to provide a background for further private developments, to build up a body of experience, or to serve as a model to check the prices and rates of private enterprise. There is reason to question the effectiveness of government operations in this direction, but no statistical comparisons are available. One can only say safely that the manner in which these enterprises are administered is, in fact, most important. They can be helpful to private capital or they can represent unfair competition. The direction in which their influence is wielded is determined largely by the basic purpose back of their administration.

Limitation on the percentage of profits is another hindrance to foreign investment. This may take either of two forms, and both may be applied simultaneously: an actual limit upon the amount of profits which will be permitted to foreign capital or a limit on that which can be remitted abroad to the country from which the investment comes. This latter is a feature of foreign exchange limitation. Sometimes it is in an absolute guarantee or permission, but is hedged about with further restrictions. Brazil has passed a law that profits up to 8 per cent of capital invested can be removed each year, if earned, and if exchange is available. This could mean a limitation on profits of 8 per cent remitted, but it may mean no return whatever. Profits above 8 per cent can be remitted over a period of five years under the same conditions. Other countries have specified 10 and 12 per cent as the maximum. No matter how great the maximum, if there is not at least a minimum permitted absolutely and without qualification, the limitations are very unattractive to capital. If foreign investors could be sure that the profits they make, within the limitation, could be remitted, they might be willing to invest.

Other regulations have similar tendencies. In Argentina regulations exist to the effect that earnings of more than the maximum permitted (without reference to how much may be remitted through foreign exchanges) have to be reinvested. Such reinvested income, however, may not be considered as

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capital upon which to calculate percentage of earnings which could be remitted in subsequent years. Argentina has also ruled that capital goods imported by the investing company, even though not paid for by the Argentine branch of this foreign company, are not part of the capital investment for profit remittance purposes. These particular interpretations of the meaning of *capital invested* were found to be very serious obstacles to new investments and were changed somewhat in July 1948. A final policy may not as yet be determined. Profit limitation, while not approved of by business men, is in general not the essence of the problem and, except for exchange control, is probably not a basic obstacle to investment. But it may and probably does have the effect of lessening the flow of more speculative risk capital.

There are additional types of control over profits and earnings exercised in other countries. Some legislation requires the reinvestment of earnings. An investor does not want to be bound by law to continue to reinvest in his business. He prefers to determine for himself whether he wishes to expand or, if the business be not profitable, to withdraw his earnings. Futhermore business men are often, perhaps generally, specialists in a particular field. Manufacturers of a given article do not want to be forced to invest in some wholly unrelated industry, particularly in amounts which do not seem to be required by that industry, just because they have earnings in excess of the permitted return of dividends in their own industry.

It must be noted that the recipient countries have imposed these restrictions for two purposes. The underlying one—although the one usually not expressed—is to avoid any further load on their foreign exchange. Frequently they work against their own best interest; for, if the conditions relating to private enterprise within a country are reasonably favorable, investments are usually made with the expectation of expanding the industry as conditions of profitable trade justify. Active withdrawal of earnings on capital, or the desire to withdraw, usually follows threats to the security or profitable operation of the investment. Forced investment is itself equivalent to a threat

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to the safety of private capital. It is almost an axiom that, with reasonable safety for investment and with opportunities for profits, new capital invested in an underdeveloped country is apt to equal over a long period of years the income remitted. But in some years, and for many investors in most years, this would not be true. When it is not true, it is indicative of the fact that conditions do not exist that will bring about the equivalence of new investments.

The necessity of foreign exchange in all international trade has been a recurring problem, and the effort to control it for the benefit of one country or another has become a great impediment to foreign investment. The problem itself is simple. The mechanics of foreign exchange, however, are complex; and the efforts to manage them have led not only to stagnation of foreign trade but to preventing the only ultimate remedy, namely greater unrestricted international trade. If all trade, both domestic and foreign, were conducted solely by barter—goods and services in return for goods and services—there would be no foreign exchange. The person with nothing to offer would receive nothing. When money is the medium of exchange, buyers and sellers within the same political area use the same medium and, having control of money from past sales, can buy when anything is offered which is desired. The whole international system is based upon this simple thesis: if a merchant on one side of an international boundary wishes to buy goods on the other side of that boundary, he must acquire foreign currency to buy the goods. He can do this in one of three ways: he can buy with his own local currency a credit in that country, if anyone will take his local currency for such a credit; he can buy gold in his country and ship that; or he can buy goods in his own country, sell them abroad and use the proceeds there to purchase the goods he desires to bring back. But there will be no foreign credits to be purchased with his local currency, if goods and services have not previously been sent abroad.

Prior to World War I, lack of foreign exchange had frequently been a problem for certain countries, because an increase in the cost of foreign exchange discouraged purchases

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abroad and induced credit restrictions. If the difficulty were more than temporary, depreciation of local currency in terms of foreign currency resulted. A depreciating currency is a detriment to foreign trade; but generally business men are willing to assume the risks involved in fluctuating exchange and can protect themselves by hedging operations. Fluctuations are but the barometer of economic conditions. The business man evaluates these basic conditions.

Now, however, governments have felt it to be an obligation to their citizens to attempt to control foreign exchange by law, and this tendency has become almost world wide. The controls over foreign exchange at the present time throughout the world are basically of the pattern which was first used in Germany. The existence of such a system affects very seriously the ability of a country to attract foreign capital. Should a foreign investor loan money to a country having these exchange controls, it would be relatively easy to have the loan expended, in the first instance, for materials, machines, and the like to be set up in the borrowing country and there put to productive use. But when interest became due on the loan, or profits were made on the business, the foreign investor would have no means of securing these in his own country for his use at home. It is of no advantage to him to know that his foreign investment is a profitable one, if he can receive neither income from it nor the return of his capital. He cannot withdraw his capital; for, even should he liquidate it, he has but a credit in a foreign country.

The original theory of these controls was that they were necessitated by temporary economic conditions; they were a recognition of a lack of foreign exchange to meet all commitments. It was assumed that when relatively small amounts of foreign exchange were available, the national welfare dictated that these should be used solely for the purchase and importation of goods, not readily available within the country, which were essential for the well-being of its citizens and for the maintenance of its industries. Only a government could make these allocations.

Usual priorities granted for the purchase of foreign exchange classify dividends and profits with "luxury items", while

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capital withdrawals are generally the lowest on the list. This means that capital may not be withdrawn until there is no further need of control.

Evidently believing that foreign countries must all agree as to the great disadvantage which foreign exchange controls have upon their own economy, yet recognizing the necessity for them from time to time, the International Conference at Bretton Woods tried to set up a system under which merely temporary stringencies of foreign exchange could be alleviated. Various provisions were included as a means of changing the conditions which created a lack of foreign exchange. Since Bretton Woods,[26] however, conditions have become worse in these respects rather than better.

The Foreign Assistance Act of 1948, more commonly referred to as the Economic Cooperation Act, has, for one of its many features, a temporary correction of the system of foreign exchange. Purchases are made in a foreign currency, but dollars are paid to the American or foreign supplier by the United States.

It would appear the part of reason for a foreign country which is in need of foreign capital to attract it by giving to it some relief from the country's foreign exchange regulations. The excess of the foreign capital may directly increase the foreign credits by enabling the country to create more goods for export or indirectly by making it possible to manufacture more cheaply or transport them for export. There would appear to be no reason in international law to prevent this exemption for the time being.[27] This would have the tendency to create conditions under which foreign exchange controls would not be necessary. Then some system, such as that envisaged at Bretton Woods, would be sufficient to iron out seasonal or temporary differences; and world trade, being thus

[26] The terms of the agreements are outside the scope of this paper. This and the following discussion are illustrative of the international recognition of the problem.

[27] An executive agreement has been held to permit foreign property in the United States to be treated in accord with the laws of the owner country even though such treatment is contrary to that accorded private property under American law. *United States* v. *Pink*, 315 U. S. 203, 228 (1942).

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settled, would create the international prosperity which all admit is inherent in it.

"Pegging" of foreign exchange is not strictly a part of foreign exchange control, but it represents a frequent additional detriment. When the currency of one country is depreciated in terms of another, there is the tendency on the part of the government of that country to fix an "official rate of exchange" which overvalues the currency of the country.

Taxation, either by the investing country or by the country where the investment is being made, can be and has been a real obstacle to foreign investment. Naturally a country with lower taxes offers an inducement, where other factors are equal; but the more serious question is raised when foreign capital is subjected to the taxation of both the country of the investor and the country where invested. Generally double taxation is the base of the difficulty. As a matter of fact, cases of actual discrimination against foreigners are relatively rare, though double taxation on the personal income of technical experts needed in foreign countries is a part of the problem. The United States has been in the forefront in its endeavor to eliminate double taxation from the tax structure, although most business men feel that its efforts have not yet gone far enough. Outside of its own borders, it has endeavored to persuade other countries to avoid double taxation; and treaties have been made with many of them for this purpose.[28] The complication of this problem can be readily envisaged when one observes the many circumstances under which foreign investment can be made in foreign countries, ranging from branches of the head office to wholly-owned subsidiaries or to companies in which there is but a minority interest. Taxes are generally heavy throughout the world, but this in itself is not necessarily a deterrent;

[28] U. S. and Sweden, Nov. 14, 1939; U. S. and France, Dec. 30, 1944; U. S. and Canada, June 15, 1942; U. S. and United Kingdom, Sept. 25, 1946; U. S. and Netherlands, Dec. 1, 1948; U. S. and Denmark, Dec. 1, 1948; U. S. and France (2nd treaty), ratified by U. S. June 18, 1948, not yet ratified by France; U. S. and South Africa, signed but not yet ratified; U. S. and Belgium, signed but not yet ratified; U. S. and New Zealand, signed but not yet ratified; estate treaties pending between U. S. and various countries.

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since one would look in vain for more than a few places for investment opportunities where taxes are not heavy. The problem of double taxation has now been recognized, and international efforts are steadily in process to eliminate unfairnesses and discriminations wherein double taxation arises. As the subject of double taxation is highly technical, consideration of the particular problems cannot here be made.[29]

*International Agreements*

It must appear the part of wisdom to create international agreements for the purpose of eliminating these numerous obstacles to foreign investment, which tend to restrict foreign trade and thus retard prosperity throughout the world. But to a large extent the very factors which have created these difficulties have so far prevented an agreement to eliminate them. Still efforts have been made and, if they are so far only abortive, they at least have focused the attention of the world upon the conditions which exist and upon the spurious reasons given to continue them. Among these efforts at international understanding were the discussions held between November 1947 and March 1948 at Havana, on the Charter for the International Trade Organization, and the Ninth International Conference of American States at Bogotá, Colombia, in the spring of 1948. The gap, so far unbridgeable, between the ideas of investing countries and those we may call the investee countries, appeared clearly at both of these conferences. The former desired a statement of principles assuring conditions which, subject to business risks, give security of principal and an opportunity for profits. The sole interest of many investee countries appeared to be in insisting that the statement of principles was that investments can be permitted only under whatever conditions each country desires. They wanted to limit the statement to protecting their countries against possible interference in their internal affairs and to acknowledging their rights to control the foreign capital. These provisions, which are in-

[29] This subject has been treated comprehensively by a committee of the National Foreign Trade Council, Inc. (tax committee), *Report on Regime of Tax Relief for Domestic Taxpayers Operating Abroad* (New York, 1947).

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cluded in the final draft of the Charter signed at Havana, have been subject to criticism.

At Bogotá an economic agreement was negotiated and signed on May 2, 1948, which included provisions with respect to private investments. The general statements relating to the rights and duties of government investors seem sound, but it must be noted that they were not passed with any degree of unanimity. Specific statements in most cases proved unacceptable. The provision relating to expropriation of foreign capital was passed by a margin of one vote and is still lacking in definiteness. Although it was stated in that provision that "an expropriation shall be accompanied by payment of a fair price in a prompt, adequate and effective manner", the same article provided that no such action shall be "under conditions different from those that the constitution or laws of each country provide for the expropriation of national property."[30] Discussions at the conference made it all too clear that many of the signers carried with them their mental reservations at to the particular meanings to be placed upon this and other passages. It appeared that many of the signers did not feel that their constitution and laws required that payment to foreigners for their expropriated capital should be made in the currency of the investing country or at the current exchange rates at the time of expropriation. The widely fluctuating rates of exchange throughout the world in the last few years indicate very clearly that if a foreign currency is received as compensation one year and not paid until several years later, at the rates of exchange existing at that time, the loss to the foreign investor may be very heavy. Here again, sovereignty with all its unmeaning nationalism prevents any realism as to economic conditions.

In the absence of multilateral agreement, it appears that the only protection which American investors may have must be under bilateral agreements between the United States government and some country which desires to receive American capital. One such bilateral agreement has been signed and ratified

[30] Dept. of State release 367, May 12, 1948, "Economic Agreements of Bogatá".

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with Italy.[31] This contains safeguards for the foreign investment of each country in the territory of the other and provides that property shall not be taken without due process of law and without the prompt payment of just and effective compensation, including the right to withdraw compensation by obtaining foreign exchange at rates existing at the time the expropriation takes place. It also provides that exchange restrictions may be imposed only in conformity with the articles of agreement of the International Monetary Fund. These are words which can be understood, and an earnest desire to conform to them is all that is needed to induce foreign investment.

### *Conclusion*

A basic misconception of industry seems to have arisen throughout the world resulting in an idea that capital can be coerced and that it is necessary for government to pile regulation on regulation to make it perform its function. Historically and logically, this is not true. Capital will always perform its function better by inducement than by coercion. The willingness to take economic risks has always provided, and still provides, the principal argument in favor of the capitalistic system. The imposition of rigid controls or fear of seizure is not part of business and economic risks; and there is no way to insure against resulting losses. When such fear appears, private capital will fail to foster needed economic developments; and this in turn will force the governments to assume these risks. That is the way to socialism or communism.

Many of these risks to foreign capital by imposition of controls could be eliminated merely by government fiat. If it is not feasible to remove all at once, then it can be done by announcement of purpose, by specific policy as to new investment, by further relief when announced goals have been reached, until step by step freedom of enterprise is once again realized. It should be apparent then that controls are related

[31] 80th Congress, 2nd Session, Senate, Executive E, Treaty of Friendship, Commerce and Navigation with the Italian Republic. Message from the President of the United States, April 14, 1948.

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only to abnormal conditions. As economic defense and economic warfare they have been effective; as a system of world trade they have failed. Capital so controlled has not led to economic abundance.

A survey of world investment opportunities leads to simple and obvious conclusions. The United States is ready, able and willing to supply, through private means, an incalculably large amount of capital and industrial knowledge. Foreign countries need and want this capital. They can expect it only on terms that give enterprises a reasonable opportunity to make profits and reasonable assurance that next year and for years to come the capital will be theirs to risk and gain therefrom. It is not necessary, nor is it expected, that capital will be free of all restraints; but the restraints must be reasonable and nondiscriminatory. The private-enterprise system has much to offer underdeveloped countries in the way of material advantages—increased national income, education, a higher standard of living—which are the tangible bases for an intangible development in the dignity of man.

Capital by its very nature is international, and it flows freely over national boundaries when those seeking it create conditions to attract it. Are the foreign countries now desiring American capital willing to offer these conditions?

WILLIAM HARVEY REEVES

NEW YORK CITY

PAUL D. DICKENS *

WASHINGTON, D. C.

* The views expressed herein do not necessarily reflect those of the Treasury Department.

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# LENIN'S ATTITUDE TOWARD AN INTERNATIONAL ORGANIZATION FOR THE MAINTENANCE OF PEACE, 1914-1917

A WIDE variety of headlines during the past few months raises anew a fundamental problem. Tomorrow's news may vary the form, but not the content, of the query: what is the Soviet Union's attitude toward international organization?

The question has been cast in its most spectacular form by such events as: proposals that the North Atlantic alliance be made the basis for a world federal union; discussions and activities related to Benelux Economic Union; the signing of the statute of the Council of Europe; the Russian delegate's use of the veto in the Security Council; and the plethora of suggestions advanced for revision of the United Nations Charter.

The answer to the basic question raised by all these events will be found in part in the ideology which provides the blinkers (or the binoculars) conditioning the Soviet view of international relations. That ideology is illumined for us, as it is for Soviet students of political theory, by turning to its source —the works of Lenin. Assessors may disagree as to the governing force of Leninism in the contemporary foreign policy of the U.S.S.R., but few will deny that at a minimum it regulates the form in which the Kremlin's decisions are presented.

The appearance of miles of trenches snaking their way across Europe's surface in 1914 increased the attention men gave to finding a solution to the problem of war. Millions of words were spoken and written during the years of combat as to its causes and ways to prevent its repetition. Lenin was not the least prolific of these analysts and propounders of solutions. Did he believe that an international organization could prevent a war in the future? What was his attitude toward a United States of Europe which was so much discussed by socialist groups at that time? How did he reconcile his agitation for



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an " amalgamation of nations " on one hand and his propaganda for secession, separation and self-determination of nations on the other? Did Lenin believe that socialist and capitalist states could coöperate in an international organization? Could Litvinov have been referring to Leninism when he told the fifteenth League Assembly on September 18, 1934 that the idea " of an association of nations contains nothing theoretically inacceptable for the Soviet state and its ideology. . . " ?

The answers to these questions, found in Lenin's copious writings during the years 1914-1917 about the nature of the war and the peace to follow, may reveal some of the ideological roots of Soviet policy vis-à-vis contemporary international organizations.

### *Vacillation about a United States of Europe*

Shortly after the outbreak of hostilities, Lenin capsuled his beliefs about the conflict and supported European unification in his " Theses on the War ". This formulation was presented orally to a group of Bolsheviks living in Berne, Switzerland, on September 6, 1914. He concluded his remarks by advocating agitation for revolution and, " as one of the immediate slogans, propaganda in favor of republics in Germany, Poland, Russia and other countries, and in favor of transforming all the separate states of Europe into united republican states of Europe." [1]

Lenin's eight auditors agreed with their speaker. The theses were dispatched to Russia for consideration by the Bolsheviks there. Discussion led to some slight modification in the " line ". Subsequently Lenin approved the alterations, and the revised document was published on November 1, 1914 as a manifesto of the Central Committee of the Russian Social-Democratic Labor Party (R.S.-D.L.P.).

The principle of a European organization of states was sustained, but the statement of the tenet was modified to read:

> The political slogan of the Social-Democrats of Europe for the near future must be the creation of a republican United States

[1] V. I. Lenin, *Collected Works* (New York, 1930), XVIII, 63-64.

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> of Europe. In contrast to the bourgeoisie, which is ready to "promise" anything in order to draw the proletariat into the general stream of chauvinism, the Social-Democrats will explain that this slogan is false and senseless without a revolutionary overthrow of the German, Austrian and Russian monarchies.[2]

The manifesto also declared that the struggle in Russia should be for a democratic republic, but that in the more advanced industrial states pressure should be exerted for complete socialism. It is clear that Lenin and his Bolsheviks believed that a democratized Russia could participate with nonmonarchical states in a United States of Europe, but they preferred to collaborate with socialist states in such an international organization.

Three months elapsed before Lenin again expressed himself publicly on the proposal. During the period he modified his position as demonstrated by his remarks at the opening of a conference of foreign sections of the R.S.-D.L.P. The Bolsheviks living outside Russia had formed organizations in a number of European cities. Representatives of these foreign sections held a series of meetings in Berne from February 27 to March 4, 1915. The United States of Europe slogan gave rise to considerable controversy during that week, according to Lenin's wife, Krupskaya, who attended the conference along with her husband.[3] Lenin in his "Theses" and in the manifesto had referred to the slogan as an "immediate" one for the "near future". This phraseology, however, does not prepare one for his shift from complete support of a European organization of states to a position which regarded such an organization as purely a transitory phenomenon.

Lenin presented to the conference an eight-point program, of which point number seven was "To count 'The United States of Europe' a transitional slogan for the building of a New Europe."[4]

[2] *Ibid.*, p. 81.

[3] N. K. Krupskaya, *Memories of Lenin* (London, 1942), pp. 224 and 235-236.

[4] Syromyatnikova, "Bernskaya Konferentsiya Zagranichnykh Organizatsii R.S.-D.L.P. (b) v 1915 g." ["Berne Conference of Foreign Organizations of the R.S.-D.L.P. (b) in 1915."], *Proletarskaya Revoliutsiya*, May 1925, pp. 159-160.

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Many of the conferees opposed this statement. The opposition argued that agitation for a United States of Europe—even a temporary organization—had no place in a Bolshevik program. The chief reason advanced was that it was impossible for nation states to unite under capitalism. Lenin rejoined that it was political wisdom to advance demands which could not be achieved under capitalism; appeals to people's deep-seated desires—desires unattainable under the capitalist system—encouraged revolt against that system.

Following a day of discussion, Lenin's formulation of the slogan was unanimously adopted as a part of the party program. Despite his persuasiveness, Lenin was not clear in his own mind as to the correct theoretical position to take on the issue. That very evening he discussed the matter with a number of the party comrades and on the following day he again addressed the conference:

> Although, we yesterday already decided the question about the "United States of Europe," [nevertheless] in view of the fact that the question stimulated differences of opinion in our ranks, and in view of the fact that the discussion was one-sided and did not touch upon the economic side of the question which remained unclear, therefore this question must not be counted as solved.[5]

Lenin suggested that the slogan previously adopted be eliminated from the resolutions. He again won the day and it was stricken out, pending further discussion in the press.

It was five months before he once more put his views on this subject into writing. Krupskaya confirms the fact of Lenin's indecision during the period. She observed that, throughout the first year of the war, the question of an international organization of European Powers became but a phase of Lenin's rethinking of the entire problem of imperialism.[6] By August 1915, he concluded that the slogan was incorrect

[5] G. L. Shklovsky quoting Lenin, "Vospominaniya Uchastnikov Bernskoi Konferentsii" ["Rememberances of the Participants in the Berne Conference"], *ibid.*, p. 187.

[6] Krupskaya, *op. cit.*

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and recorded his reasons (and final opinion) in an article entitled "The United States of Europe Slogan".[7]

The article approached the question politically and economically and stated the conviction that it was "entirely impregnable as a political slogan" but economically it was "either impossible or reactionary." It was politically sound, Lenin felt, because the United States of Europe envisioned by the slogan was to be based on republics and not monarchies. He emphasized that the slogan was accompanied by a demand for the overthrow of monarchies and asserted that this kind of a truly *democratic* political change would not weaken the people's desire for a *socialist* revolution. On the contrary, it would widen the base for the socialist revolution by drawing new members of the petty bourgeoisie into the struggle.

When he considered the economic aspects of the slogan, Lenin declared it to be "either impossible or reactionary", and proceeded to elucidate the alternatives. A union of European capitalist Powers was impossible because of the nature of imperialism. Capitalist nations had divided the world into spheres of influence; no capitalist state would give up any of its own spheres unless forced by war to do so; meanwhile, every capitalist nation wanted the spheres controlled by other Powers who in turn would not give them up without fighting. Therefore, the drive of capitalism was toward war, not toward union.

The other horn of the dilemma formulated by Lenin was that if it *were* possible for nations to form a United States of Europe, such an organization would be "reactionary". He admitted that "temporary" agreements between capitalist states could be effected. He felt, however, that such agreements would be directed toward two reactionary ends: (1) the suppression of socialism in Europe, and (2) the maintenance of spheres of influence against Japan and America which were growing and expanding.

Lenin also opposed the slogan "The United States of the World" because it coincided with socialism. In other words, he felt that the slogan should be "socialism" and not "The United States of the World". He objected to the latter, fear-

[7] Lenin, *op. cit.*, pp. 269-272.

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ing that if one talked about "The United States of the World" instead of about "socialism" it could be "erroneously interpreted to mean that the victory of socialism in one country is impossible." Lenin did not want anyone to give up the struggle for socialism in a single country at a given time on the grounds that it could not be achieved in all countries at that time. This is one of the passages quoted by Communists to demonstrate Lenin's belief that socialism in a single country was possible.

He hastened to explain that the statement, "socialism is, at the beginning, possible in a few capitalist countries, even in one", did not mean that the movement for revolution in other countries should be abandoned. He said it was impossible to achieve socialism "without a more or less prolonged and stubborn struggle of the socialist republics against the other states."

The *sine qua non* for evaluating the ideological roots of the Soviet Union's attitude toward international organization is whether their theory admits the possibility of successful collaboration between capitalist and socialist nations. Therefore, it should be noted that during the war period, in Lenin's only extensive discussion of international organization, he indicated that capitalist and socialist states could coexist, at least temporarily, but he advocated a struggle by the socialist states against the other nations. He did not specifically *exclude,* however, the possibility of collaboration between the two.

The newspaper article described above was written in August 1915. During the same month, Lenin and Zinoviev produced a brochure entitled *Socialism and the War.* A detail attendant on the publication of the pamphlet indicates Lenin's concern lest others misinterpret his position on international organization by basing their views on his earlier statements. The manifesto of the Central Committee (quoted previously), which had approved the slogan for a United States of Europe, was to be included as an appendix to the Lenin-Zinoviev booklet. On August 17 or 18, 1915, Lenin wrote to Karpinsky, who was in charge of the party library and archives in Geneva and whose job it was to have the pamphlet published. He

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penned a postscript to the letter: "P.S. Attached is an addition which must go in the brochure. Insert it please."[8] The addition, which was to be a footnote to the manifesto scheduled for printing in the appendix, read as follows:

> The demand for a United States of Europe as it is put forward in the manifest of the Central Committee—accompanying it with an appeal for the overthrow of the Russian, Austrian, and German monarchies—differs from the pacifist interpretation of that slogan by Kautsky and others.
>
> In No. 44 of the C.O. [Central Organ] of our party, "Social-Democrat," was inserted an editor's article in which is demonstrated the economic incorrectness of the slogan "United States of Europe." Either this demand is unrealizable under capitalism, which presupposes the establishment of planned world economy with division of colonies, spheres of influence, etc. between individual countries. Or this is a reactionary slogan, meaning a temporary union of the great powers of Europe for the successful oppression of colonies and [in order to] plunder more quickly the more highly developed Japan and America.[9]

From this moment until the end of the war, Lenin did not change his attitude toward an international organization involving capitalist Powers. He expressed his hostility, parenthetically during discussions of other issues, on numerous occasions. Some representative comments are reproduced below.

In one of his many attacks on the Second International, he emphasized in *Sotsial-Demokrat* on March 25, 1916 that only socialism—and not an international organization—could guarantee peace:

> the imperialist powers and the imperialist bourgeoisie cannot grant a democratic peace. Such a peace must be sought and fought for, not in the past, not in a reactionary utopia of a non-imperialist capitalism, nor in a league of equal nations under capitalism, but in the future, in the socialist revolution of the proletariat.[10]

[8] Lenin, *Sochineniia (Works)* (Moscow, 1932, 2nd ed.), XXIX, 183-184.

[9] *Ibid.*, XXX, 235.

[10] Lenin, *Collected Works* (New York, 1942), XIX, 67.

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In the same month he reiterated the impossibility of an international organization under capitalism: "The idea of a peaceful union of equal nations under imperialism . . . deceives the people . . . [because] under imperialism the division of nations into oppressing and oppressed ones is a fundamental, most important and inevitable fact." [11]

The Second Zimmerwald Conference of Socialists met at the Swiss village of Kienthal April 24-30, 1916. Lenin's wing of the membership drafted its own resolution, which chastised those who advocated a United States of Europe for thereby diverting the masses from the revolutionary struggle. The resolution charged that the petty bourgeoisie, opportunists and social pacifists

> are endeavoring to ignore the real facts and to divert the masses from them; they pursue a mirage of "democratic peace" which would give to the peoples a United States of Europe, compulsory courts of arbitration, disarmament, democratized diplomacy, etc. In reality all this deceives the masses, covers up and disguises the cruel facts of world politics. Each capitalist clique draws new income from armaments, protective tariffs, and new colonies. The present situation and the future of capitalism mean not disarmament, reconciliation, and "democratic control" over predatory ambitions but increase and expansion of the dominance of the club law of the financial cliques and of their imperialist world policy. Consequently, the objective significance of the utopia of world capitalism, i.e. capitalism without wars, is that the masses of the people are being misled as to the real state of affairs. They are being diverted from the path of the revolutionary struggle.[12]

Early in 1916, Lenin was drafting his pamphlet *Imperialism, the Highest Stage of Capitalism,* which was completed in July. In it, he gave a nod or two to the subject of a United States of Europe. Hobson, an English economist, was quoted as saying that older empires had become economic parasites (that is,

[11] *Ibid.*, p. 51.

[12] Text of draft resolution of the Zimmerwald Left in O. H. Gankin and H. H. Fisher, *The Bolsheviks and the World War* (Stanford, 1940), p. 425.

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the ruling class of older nations was becoming rich at the expense of colonies and was bribing the lower classes into acquiescing in the policy of exploitation of backward areas). Lenin quoted Hobson further as predicting that a European federation —a federation of Western states—might develop Western parasitism, with the upper classes of the Western Powers drawing vast tribute from Asia and Africa. Lenin concluded: "Hobson is quite right. Unless the forces of imperialism are counteracted they will lead precisely to what he has described. He correctly appraises the significance of a 'United States of Europe' in the present conditions of imperialism."[13] He also indicated that Gerhard Hildebrand's advocacy of a "United States of Western Europe" was subject to the same criticisms.[14]

In addition, Lenin discussed "inter-imperialism" and "ultra-imperialism" somewhat at length. He said of those theories:

> no matter what form they may assume, whether of one imperialist coalition against another, or of a general alliance embracing all the imperialist powers, [they] are inevitably nothing more than a "truce" in periods between wars. Peaceful alliances prepare the ground for wars, and in their turn grow out of wars; the one is the condition for the other, giving rise to alternating forms of peaceful and non-peaceful struggle out of one and the same basis of imperialist connections and the relations between world economics and world politics.[15]

Lenin had moved from one end of the continuum to the other. Between 1914 and 1917 he had advocated successively: agitation for a United States of Europe in which all nonmonarchical states could participate, propaganda for a European organization as a transitional step to socialism, and, finally, unqualified disapproval of such unity. His most vehement denunciation of the idea was an attack on a resolution of the French General Confederation of Labor which had declared that a federation of nations would be one of the guarantees of a lasting peace.

[13] Lenin, *Collected Works* (New York, 1942), XIX, 174.

[14] *Ibid.*

[15] *Ibid.*, pp. 188-189.

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Lenin said of the resolution on January 1, 1917, it "contains nothing but bourgeois pacifist phrases; not a shadow of revolutionary consciousness, not a single socialist idea!" He continued: "Bourgeois nationalists always and everywhere flaunt 'general' phrases about a 'federation of nations'...." The struggle for a just peace "cannot be waged by repeating general, vapid, benign, sentimental, meaningless and noncommittal pacifist phrases, which merely serve to embellish the foulness of imperialism...." [16]

*International Organization of Socialist States*

The polemics about a United States of Europe referred to an international organization of democratic, essentially capitalistic, Powers. It was not the principle of interstate organization which Lenin opposed, but rather the idea that the union would be based on the capitalistic system. Such a federation, in Lenin's opinion, could never maintain peace because of the inherent drive of capitalism toward war. He favored instead the eventual union of socialist states.

Lenin's writings are replete with pleas for "a fusion of nations", "a union of governments", "an amalgamation of nations", and so on. He was convinced that nations would exist, for a time at least, after the war; and he even opposed the slogan, "Down with boundaries between nations and states", favored by many Bolsheviks.

Lenin's goal was a union, fusion, amalgamation of nations. But how, in what form? Unfortunately, he left no blueprint of his conception of a socialist United States of the World.

An examination of his attitude about a new International sheds little light on the question. The Third International in the war period was conceived of as an international workingmen's association for the purpose of stimulating world revolution. There is no indication that Lenin thought of it as a form of government. It was to promote amalgamation—but was not to be the amalgamation.

Ill-defined as his views were on the subject of international

[16] *Ibid.*, pp. 417-418.

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organization under socialism, they were not completely obscure. During this period, Lenin often spoke about self-determination of nations, federation, annexations, secession and separation of nations. The following representative excerpts from his writings on these subjects reveal the trend of his thinking about the unification of socialist states.

Some pre-war Bolsheviks felt that to advocate self-determination of nations was to turn back the wheel of history to the antiquated ideal of national states. In reply to one such article by Radek, Lenin wrote:

> We demand the freedom of self-determination, i.e. independence, i.e. the freedom of separation for the oppressed nations, not because we dream of an economically atomized world, nor because we cherish the idea of small states, but on the contrary because we are for large states and for a coming closer, even a fusion of nations, but on a truly democratic, truly international basis, which is unthinkable without the freedom of separation.[17]

Elaborating on the seeming anomaly that separation will bring union, Lenin warned: "National antipathies will not disappear so quickly: the hatred—and perfectly legitimate hatred—of an oppressed nation for the oppressor will continue for a while. . . ." [18] To put a hypothetical illustration into his mouth, even if Russia were to become socialist, the previously oppressed Ukrainians would still hate Russia. They would for a time draw no distinction between the new socialist government and the old Tsarist government. It would take time before the Ukrainians would lose their hatred. One way to help them to see the difference between Tsarism and socialism would be to permit them to secede from Russia. Once free, the formerly oppressed peoples would be attracted into an alliance with the great socialist state, because the working hours would be fewer and the wages higher.[19]

Lenin drew another distinction which helped to eliminate the

[17] *Collected works* (1942), XVIII, 373.

[18] *Ibid.*, XIX, 299.

[19] *Ibid.*, pp. 285-286.

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apparent inconsistency of advocating both "separation" and "union". All his comments about separation and secession applied to the self-determination of *nations*, that is, the right of all the people in a national group to secede. When he spoke of amalgamation and union of nations, however, he referred to the unification of the *proletariat only*:

> and from the frightened nations of today—or more correctly, from the present-day labour movement, which is disorganized more by the opportunists than by governments—there will arise, sooner or later, but with absolute certainty, an international league of the "terrible nations" of the revolutionary proletariat.[20]

At a different time, he wrote illustrative of this principle:

> The proletarian party strives to create as large a state as possible, for this is in the interests of the workers; it strives to bring the nations closely together, to fuse them, but it intends to bring that about not by the use of force, but only by a free, brotherly union of the workers and the toiling masses of all nations.[21]

Lenin expressed this same thought more succinctly on another occasion: "In contradistinction to the bourgeois democrats, we call for the brotherhood of workers of all nationalities, and not the brotherhood of nations. . . ." [22]

In the minds of Lenin and his followers, the demand for a union of workers-states after secession was quite different from autonomy, for national autonomy unites the bourgeoisie and workers of one area, rather than uniting the workers of all areas:

> The party of the proletariat decidedly rejects the so-called "national cultural autonomy," i.e. the plan to eliminate the schools, etc. from state jurisdiction and to place it under something like national diets. Autonomy of national culture draws artificial lines of adherence to "national cultures" between

[20] *Ibid.*, p. 356.

[21] *Works* (New York, 1929), XX, Bk. 1, p. 144.

[22] *Ibid.*, XXI, Bk. 2, p. 94.

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> workers who live in the same locality and even work in the same enterprises, i.e. it strengthens the connections between the workers and the bourgeois culture of the respective nations, whereas the task of Social-Democracy consists in strengthening the international culture of the world proletariat.[23]

One may speculate on the form of the amalgamation of workers-nations on the basis of Lenin's concept of the state as outlined in *State and Revolution*, written in August-September 1917. It will be recalled that this pamphlet defined the state as the apparatus of compulsion by which one class dominates another. He opposed control of the state by the capitalist class; advocated its seizure by violent action of the proletariat, the vanguard of which would exercise a dictatorship; visualized the formation of agencies (communes or soviets) in which the proletariat would be transformed into state employees; thought there would be an increasing centralization by a voluntary fusion of the proletarian communes; believed that people would learn to observe rules, thus eliminating the necessity of force, and hence the special apparatus of compulsion called the state would wither away.

### *International Organization of Capitalist and Socialist States*

The picture of Lenin's conclusions about international organization now includes opposition to such an institution, if it were to be based on capitalism, and encouragement for an international organization based on socialism.

The picture raises the ultimate question: what about an organization of capitalist *and* socialist states?

Lenin did not discuss the subject specifically. The *sine qua non* for such a body, however, would be the ability of capitalist and socialist states to coexist and coöperate with one another. In this connection it is helpful to remember Lenin's analysis of the nature of war and peace and the possibility of socialism in one country, which he set forth between 1914 and 1917.

The class struggle was, of course, the foundation for all of

[23] *Ibid.*, XX, Bk. 2, p. 404.

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Lenin's thought. He was firmly of the opinion that war and peace in an era of imperialism hinged on capitalists who wanted war and not peace. He did not believe war to be the result of the whims of moneyed individuals alone. It was the *system* which made war inevitable. He expressed this belief in the pamphlet *The Tasks of the Proletariat in Our Revolution:*

> The war was not born out of the ill-will of capitalist robbers, although it undoubtedly is fought solely in their interests and they alone get rich from it. The war was born out of half a century of development of international capital, the billions of threads and connections. One cannot jump out of an imperialist war, one cannot attain a democratic unoppressive peace without overthrowing the power of capital, without the state power passing to a different class, the proletariat.[24]

The logical conclusion from that premise would seem to be that a league for the maintenance of peace based on capitalist and socialist states would be futile because war, not peace, is the inevitable result of capitalism in its imperialist stage.

Does Lenin's theory of socialism in a single country raise any doubt as to the conclusion just implied?

Marx and his followers had definitely rejected the possibility of the victory of socialism in one separate country. Lenin disagreed on the basis of the new conditions created by imperialism. His reasoning about imperialism and the unevenness of capitalist development could have led to no other conclusion but that socialism was possible in a single country—although it is equally clear that he did not expect the period of time in which victorious socialism would exist in a single country would be lengthy. Neither did his philosophy indicate that socialism in one nation necessarily meant peaceful coöperation with the capitalist states.

It will be recalled that his article on "The United States of Europe" *did not exclude* the possibility of coöperation with capitalist countries; neither did it advocate such coöperation. It urged, in fact, the victorious proletariat to rise up against the capitalist world.

[24] *Ibid.*, Bk. 1, pp. 138-139.

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Another comment with implications concerning capitalist-socialist coöperation consists of two lines from an attack on the "Disarmament Slogan", published in 1916. The statement could not have been made unless socialism and capitalism were envisioned to be coexisting for a time. This declaration is interesting for its use of the words "inevitable" and "possible". It could imply that Lenin believed capitalist and socialist states would not be compelled to fight, for he said: "Civil wars of the proletariat against the bourgeoisie for socialism are inevitable. Wars are possible between a country in which socialism has been victorious and bourgeois or reactionary countries." [25]

The third expression of opinion on this question during World War I was written in the fall of 1916. Again, the declaration did not *exclude* the possibility of coöperation from the standpoint of the socialist state, but it declared that there would be no coöperation because the capitalist Powers would attack a socialist country:

> The development of capitalism proceeds very unevenly in various countries. . . . From this it inevitably follows that socialism cannot be victorious simultaneously in *all* countries. It will be victorious first in one, or several countries, while the others will for some time remain bourgeois or pre-bourgeois. This must not only create friction but a direct striving on the part of the bourgeoisie of other countries to crush the victorious proletariat of the socialist country.[26]

The final piece of evidence relative to Lenin's attitude before the Revolution toward socialism in a single country comes from one of his addresses to the All-Russian April (May) Conference of the R.S.-D.L.P. in 1917. Once more he implied that the proletariat can be victorious in one nation. He also answered a very pertinent question:

> We are asked: If the Revolutionary class assumes power in Russia, and if no uprisings break out in the other countries, what will

[25] *Ibid.*, XIX, 353.

[26] *Ibid.*, p. 364.

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the revolutionary party do? Indeed, what will we do? This question is answered in the last paragraph of our resolution.

"Until the revolutionary class in Russia shall have taken over the entire state power, our party will with all means support those proletarian parties and groups in foreign countries as are already, during the continuance of the war, conducting a revolutionary struggle against their own imperialist governments and their own bourgeoisie."

This is all we can promise to do now. The revolution is growing in all countries, but when it will break out, and to what extent, no one knows. In every country there are people who are carrying on a revolutionary struggle against their government.' Them and them alone we must support.[27]

Lenin's statements concerning socialism in a single country, when taken alone, neither affirm nor deny that capitalist and socialist states *could* coöperate. They also show that he believed they *would not* coöperate, and his theory of world revolution, plus his analysis of the nature of war, certainly records his belief that they *should* not. Time and time again, Lenin said, "we reject any agreement with capitalists."[28] Therefore, one may conclude that during the period 1914-1917 Lenin did not support the *sine qua non* for an international organization of capitalist and socialist states, that is, coöperation between the two.

### *Applying Leninism in 1949*

Russia's present leaders and their press still berate the United States of Europe idea and decry schemes for world government and regional union as slogans directed against the U.S.S.R. Such attacks are simon-pure Leninism. There is, however, a basic deviation in the current theory, from that described in the preceding pages, in the profession that "Soviet foreign policy proceeds from the premise that the two systems—capitalism and socialism—will exist side by side for a long

[27] *Ibid.*, XX, Bk. 1, pp. 300-301.

[28] *Ibid.*, Bk. 2, pp. 210-211.

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time. . . ." [29] Lenin's pre-war writings made it clear that he did not believe the period of coexistence would be lengthy.

This variation is not necessarily a heresy to Soviet theoreticians who often emphasize that they regard their ideological heritage as a guide in modern times and not as a dogma to be followed to the letter.[30] Stalin has stressed that descendants of classical Marxist writers cannot " doze calmly at the fireside and munch ready-made solutions." [31]

In addition, as has been shown here, there was sufficient indecision in Lenin's early thinking about an international organization for his followers to find in his words support for the U.S.S.R.'s participation in contemporary world agencies. Nevertheless, joining the League of Nations and the United Nations required of the Soviet Union an ideological departure from Lenin's views of 1914-1917. The difficulty of a complete severance from the past may be appreciated by those Americans who are still living under the long spell cast over our own nation's foreign policy by the words of a great leader who opposed " entangling alliances ".

C. DALE FULLER

UNIVERSITY OF DENVER

[29] A. Zhdanov, *The International Situation* (Moscow, 1947), p. 22.

[30] Commission of the C.C. of the C.P.S.U. (B), *History of the Communist Party of the Soviet Union (Bolsheviks)* (Moscow, 1939), p. 355.

[31] Quoted in House Committee on Foreign Affairs, *The Strategy and Tactics of World Communism* (Washington, 1948), p. 155.

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# DID LABOR SUPPORT JACKSON? : THE BOSTON STORY

IT has lately come to be accepted gospel that eastern workingmen supported Andrew Jackson and his party during the period of his presidency, and that "he could not have been elected president if the votes of the laboring men of the Northeast had not been added to those of his followers in the Southeast and the West."[1] A recent study has indicated that for the city of Philadelphia, at least, this thesis is not tenable.[2]

This paper's concern is with the workingmen of Boston and their participation in the political arena during Jackson's two terms. As a key urban center in that period Boston merits examination. So unprecedented had been the expansion of industry in that city that by 1837 over ten thousand workers were engaged in some form of manufacturing enterprise.[3] Hardships and inequalities bearing on workingmen throughout the seaboard area found classic expression in Boston;[4] and the level of political and economic activity of the working class there made it one of the cities most prominent in the struggles of organized labor.[5] A study of the attitudes of Boston workers toward the party of Jackson, then, should furnish us with extremely relevant data as to the validity of the thesis that an important share of Jackson's success was due to the support he received from labor.

It would seem that in part the problem could best be solved by studying the positions and platforms of the workingmen's parties, if any, and noting their relationship with the Democratic party, and their support or opposition on specific and general issues. But the

[1] Arthur M. Schlesinger, *New Viewpoints in American History* (New York, 1922), p. 209. Also see Selig Perlman, *A History of Trade Unionism in the United States* (New York, 1929), p. 9; Alden Whitman, *Labor Parties, 1827-1834* (New York, 1943), pp. 9, 10, 52; Arthur M. Schlesinger, Jr., *The Age of Jackson* (Boston, 1945), p. 193. In all of these books the rôle of the Bank War as the decisive event in drawing laboring men into the Jackson camp is emphasized.

[2] William A. Sullivan, "Did Labor Support Andrew Jackson?", POLITICAL SCIENCE QUARTERLY (December 1947), LXII, 569-580.

[3] Lemuel Shattuck, *Report on the Census of Boston for 1845* (Boston, 1846), p. 86.

[4] John R. Commons and Associates, *History of Labour in the United States*, I (New York, 1926), 177-178, 298.

[5] According to Richard T. Ely, Boston and New York were the two cities most prominent in the labor movement from 1825 to 1861. *The Labor Movement in America* (London, 1890), p. 41.



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answer in this case is not so simple, nor can it be arrived at by such statistical breakdown. In the first place, "The Workingmen's Party" of Boston was an extremely weak political organization, never representing more than a tiny fraction of the workers.[6] Since many of its candidates were Whigs and among the wealthiest men in the community, a good case might be made for the startling thesis that the party of Boston's workingmen was a front organization for the Whigs.

Actually, in so far as organizational activity is concerned, the main energies of the workers were directed along paths somewhat removed from politics. They organized to strike for a ten-hour day in 1832 and again in 1835; they served as the nucleus of a New England organization that combined political with economic action, The New England Association of Farmers, Mechanics, and Other Working Men,[7] which lasted from 1832 to 1834; and in the year of the Association's demise, 1834, they formed a trades union which at its height numbered more than 4,000 workers, representing sixteen trades, in its membership.[8] It was in these movements rather than in political parties that outlet was found for the expression of their widely ranging demands.

Boston's workingmen remained in large part outside the short-lived party of 1830-1831. Let us look at the voting record of labor for the entire period 1828-1836. The ideal data for this study would consist of lists of all the voters, precise descriptions of their occupations and social position—that is, whether they were wealthy or poor, journeymen or masters, small retail dealers or large merchants—and, finally, a tabulation of their votes. In the absence of such definitive material, a less satisfactory technique must be utilized, but one which has a common-sense validity and, in practice, has been effectively employed. The wards of the city have been broken down according to population and assessed valuation; these wards with the lowest assessment per person have been assumed to be the working-class wards.[9] Other statistics substantiate these findings. In any

[6] This statement is based on the extremely poor showing made by the candidates of this party in the elections of 1830 and 1831. The negligible vote cannot possibly represent the actual proportion of workingmen participating in the elections.

[7] Commons, *et al.*, *History of Labour*, I, 302.

[8] *The Man*, February 20, March 7, 12, 1834.

[9] This method was first used by Dixon Ryan Fox, *Decline of Aristocracy in the Politics of New York* (New York, 1919), and later by Sullivan, *loc. cit.* While this method is open to question in a city where a few great holdings might give a particular ward a false aura of general well-being, in this case that is hardly a consideration.

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case, the concluding analyses are not based merely on the empirical evidence—though the conclusions would be quite worthless without such evidence.

TAX ASSESSMENT PER PERSON

| | 1830 [10] | | | 1835 [11] | | |
|---|---|---|---|---|---|---|
| Ward | Valuation | Popul. | Val. per person | Valuation | Popul. | Val. per person |
| 1 | $ 647,200 | 4,149 | $ 155.99 | $1,187,900 | 5,075 | $ 234.06 |
| 2 | 662,900 | 4,277 | 154.49 | 1,802,700 | 5,063 | 356.06 |
| 3 | 1,028,900 | 4,906 | 209.72 | 1,134,600 | 5,279 | 214.93 |
| 4 | 3,729,100 | 5,149 | 724.24 | 4,609,300 | 7,459 | 617.95 |
| 5 | 1,457,000 | 6,138 | 237.37 | 1,606,100 | 6,675 | 240.61 |
| 6 | 2,700,600 | 4,503 | 599.73 | 4,117,300 | 5,780 | 712.34 |
| 7 | 6,191,300 | 5,760 | 1,074.88 | 8,219,200 | 6,914 | 1,188.78 |
| 8 | 4,272,500 | 5,072 | 842.37 | 5,090,400 | 5,887 | 868.08 |
| 9 | 3,856,000 | 4,529 | 851.40 | 5,021,100 | 6,762 | 739.59 |
| 10 | 1,999,100 | 4,937 | 404.92 | 2,742,000 | 5,843 | 469.28 |
| 11 | 1,626,100 | 4,227 | 384.69 | 1,971,800 | 5,361 | 367.80 |
| 12 * | 1,630,000 | 7,745 | 210.37 | 2,148,900 | 12,505 | 171.04 |

* Includes South Boston.

| Number of Wealthy Persons per Ward, 1834 [12] (Possessing property valued above $2,600) | | Expenditures for Poor Relief, 1835 [13] | |
|---|---|---|---|
| Ward | No. of Persons Taxed | Ward | Expenditures |
| 1 | 70 | 1 | $812.58 |
| 2 | 44 | 2 | 736.13 |
| 3 | 90 | 3 | 630.01 |
| 4 | 188 | 4 | 427.80 |
| 5 | 152 | 5 | 572.88 |
| 6 | 209 | 6 | 366.13 |
| 7 | 368 | 7 | 529.75 |
| 8 | 261 | 8 | 258.47 |
| 9 | 174 | 9 | 646.50 |
| 10 | 164 | 10 | 453.12 |
| 11 | 128 | 11 | 443.42 |
| 12 | 139 | 12 | 731.01 |

The first, second, third, fifth and twelfth wards are obviously the poorest, and it is in them that the votes of the workingmen should be sought. (Election returns are on pages 271-273.)

The presidential election of 1828 was not a contest between rich

[10] Shattuck, *op. cit.* Based on tables on p. 28, Appendix JJ, p. 61.

[11] *Ibid.* The figures for 1835 reveal a remarkable increase in wealth for wards 1 and 2; but they still remain among the poorest wards.

[12] Compiled from Boston. *List of Persons, Copartnerships, and Corporations who were taxed twenty-five dollars and upwards in the city of Boston for the year 1834.*

[13] *Columbian Centinel*, January 4, 1836.

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and poor.[14] In Boston, Jackson drew his supporters from among the have-nots and disgruntled elements of the upper classes—ambitious merchants and disappointed Federalists.[15] He was decisively beaten, and in only one working-class ward did he receive more than one third of the vote. Of course, for the period before the Bank veto, even advocates of Jackson-Labor coöperation are hesitant in their claims. Results of the local and state elections suggest that this hesitance is well founded.

The state election of 1829 reflected the weakness of the Jackson organization, both for Boston and for Massachusetts as a whole. Conflicting "Jacksonian" slates were nominated for the state senate, while there was no official choice for governor despite the fact that Marcus Morton, "a friend of the national administration", was running.[16] Morton got little or no support from the organization. The returns for state senator indicate that the faction led by David Henshaw—leader of the *Statesman* party, who, as Jackson's appointee to the strategic collectorship of the port of Boston, controlled the patronage that went with it—got about four times as much support as the Lyman (Federalist) group, but both were soundly trounced by the Whigs. The local elections in December aroused little interest, and the Hartford Conventionist, Harrison Gray Otis, was elected with practically no opposition.[17]

The state election of 1830 was a duplication of the preceding year; if anything, the Democrats slipped a little. Of far more consequence to our story is the appearance in August of a Workingmen's party. It ran a full slate of candidates in the local elections in December of that year, and the following May presented a complete list of sixty candidates in the elections to the state's lower house.[18]

[14] According to Joseph Dorfman, *The Economic Mind in American Civilization*, II (New York, 1946), 601, "Jackson was a substantial citizen of Tennessee... and men on all sides of controversial issues had voted for him."

[15] See Arthur B. Darling, *Political Changes in Massachusetts, 1824-1848* (New Haven, 1925), pp. 60-61, and *passim*, for a comprehensive discussion of the politics of the period. John B. Derby's *Political Reminiscences, including a sketch of the Origin and History of the "Statesman Party" of Boston* (Boston, 1835) is an "insider's" account by a recent follower of Jackson, who, after being chilled by the removal of the deposits in 1833, turned a furious pen on both Jackson and his Boston political machine, the "*Statesman*" party (after the newspaper of the same name which the machine published).

[16] *Boston Statesman*, April 17, 1829.

[17] *Boston Courier*, December 14, 1829. Of 1,966 votes cast, Otis captured 1,844.

[18] John R. Commons and Associates (eds.), *A Documentary History of American Industrial Society*, V (Cleveland, 1910), 186.

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The original platform of this party ran the gamut of typical workingmen's issues—but to the marked exclusion of economic demands of a "bread and butter" character.[19] As to its activity, it was to be confined to the presenting of memorials, such as the "Working Men's Prayer", which on June 1, 1831 was most humbly presented to the government of Massachusetts. Among its demands were equal (proportionate) taxation, direct elections for all officers, and the "cessation of all legislation on religion."[20] Little more is heard of the party after this, outside of some sharp criticism of its tactics by the New York Workingmen;[21] but, notwithstanding its relative passivity, the mere existence of a separate party for workingmen could be a source of extreme irritation to some of the pillars of society.[22]

The party fared badly at the polls. Its candidate for mayor in 1830 was swamped, while in the state congressional elections of 1831, candidates who ran with *only* the backing of the Workingmen's party received an average of 100 votes each, out of a total of 3,066 votes cast.[23] An analysis of the political and economic status of its candidates reveals some interesting facts, which perhaps explain in large part the party's failure.

Candidate for mayor was Theodore Lyman, Jr., leader of the Federalist wing of the Jackson party and one of the wealthiest men in Boston.[24] Of the seven candidates for aldermen, two were also nominated by the Whigs.[25] A spot check divulges that fifteen of the sixty candidates for the state legislature had also been nominated by the Whigs, while a number of the others were prominent in Whig circles but had for various reasons declined the nominations of their

[19] See *Boston Courier*, August 28, 1830.

[20] Commons, *et al.*, *History of Labour*, I, 298.

[21] *The Working Man's Advocate* of May 11, 1831 takes the Boston party to task for its concern with religious matters; in fact, for having come out against infidelity. On May 21, 1831, in commenting on their poor showing in the state elections, the same paper advises less internal quarreling about things not political.

[22] To the Whig *Courier*, September 17, 1830, "... the very pretension to the necessity of such a party is a libel on the community." Edward Everett, in an address reported in the *Courier*, November 4, 1830, pressed home the point that all who make their living by "honest industry", rich and poor alike, are workingmen. Hence there was no need for a special party.

[23] *Columbian Centinel*, May 14, 1831.

[24] From the *Practical Politician* as quoted in the *Courier*, December 6, 1830. Lyman was to desert the Democrats in less than a year.

[25] *Boston Daily Advertiser and Patriot*, December 9, 1830.

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party.[26] As regards social position, a breakdown of the entire list shows that forty of the sixty-eight nominees were among the wealthiest segment of the community; those paying taxes on personal and real property assessed upwards of $2,600.[27]

The above figures do not imply anything "fraudulent". Considering the social fluidity of the time, the tendency of many journeymen to think of their future in terms of becoming employers, and the inexperience of workingmen in affairs political, the fact that they exhibited unusual coöperation with upper-class groups should occasion no surprise. It reflects middle-class aspirations and a certain naïveté, more than it raises doubts as to the "true workingmen's character" of its membership.

In November of 1830 a particularly significant election was held for congressional representative from Suffolk county (Boston). But again the rich-poor contest was submerged; the victory of Nathan Appleton over Henry Lee was the victory of protection over free trade.[28] (Of course, wealthy business men could appeal to workingmen to "work for the side that gives them work" and thus protect their jobs—with a vote for protection.)[29]

Two gubernatorial elections were held in 1831, since a state law, passed after the April contest, had set aside November as the new date for state and national elections.[30] The nonsupport of the Democrats by the poor wards was equally marked in each. The lack of success apparently irked Henshaw, for in a fit of pique he charged that Boston Workingmen had supported Lincoln, the Whig candidate, and were the enemies of Democracy.[31] The outstanding feature of the campaign was the emergence of the Anti-Masonic party, which for several years was to hold a strategic balance-of-power position in Massachusetts politics. The mayoralty race was contested by Charles Wells, regular Whig, and Lyman; but by this time Lyman had split with Jackson over the latter's preference for the Henshaw

[26] *Columbian Centinel*, May 7, 1831.

[27] This is based on the *List of Persons Taxed....* Since, out of a population of 78,000, less than 2,000 could afford to be in this bracket—only one in thirty-nine Bostonians—it seems safe to speak of these persons as wealthy.

[28] *Courier*, November 2, 1830; Schlesinger, *The Age of Jackson*, p. 145.

[29] *Boston Saturday Evening Gazette*, October 25, 1830. Also see editorials of the *Courier* for October 1830.

[30] Darling, *op. cit.*, p. 93.

[31] *Boston Statesman*, April 19, 1831, as quoted in Darling, *op. cit.*, p. 100.

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machine, and was "running with the support of decided opponents of Jackson."[32] So the contest was purely personal.

The year 1832 was the fateful year of the Bank veto, an event which in New York, for example, whipped up wild enthusiasm for Jackson on the part of the workingmen's press.[33] In Boston, however, granting the over-all increase of the Democrats, Jackson continued to run a poor second, even in working-class wards. Of more concern to Boston workers than the Bank question, perhaps, was the strike they had waged for the ten-hour day in the spring and summer of that year; or the two conventions of the New England Association, held in Boston, which had renewed the old demands.[34] That the strike was unsuccessful is apparent from the proceedings of the second convention, which struck from the constitution of the Association an article calling for *compulsory* adherence to a ten-hour day.[35] (An ironical note is the fact that several of the one-time candidates of the Workingmen's party had played prominent rôles in breaking this strike of the journeymen carpenters.)[36] But this and other issues still on their minds seem to have overshadowed the Bank question.

A close analysis of the voting does indicate a great increase in total ballots cast, with Jackson actually receiving a majority of the new vote. In other words, many people who voted for the first time undoubtedly did so out of opposition to the Bank. But the fact that new voters among the workingmen united on this particular issue with the Democratic party does not at all lead to the conclusion that thereafter workingmen looked to the Democratic party as *their* party. A study of the pages of the *Artisan*, the "official" paper of the Boston Trades Union, even for 1834 when it opposed the Bank (it had previously been neutral on the question), suggests that labor was still independent, politically; Charles Douglas, the editor, and others, were still suspicious of both major parties.[37]

[32] *Centinel*, December 24, 1831.

[33] See the *Working Man's Advocate*, 1832, especially after the veto, for a change from lukewarm to heated support of Jackson.

[34] *Ibid.*, March 3, 1832; *Centinel*, February 15, 16, September 8, 1832. Some writers referred to this organization as a "Workingmen's Party". While it is true that, in 1833 and 1834, it indirectly led to support of candidates for state office, the fact remains that the Association itself was another breed of creature than the political party in the ordinary sense.

[35] *Centinel*, September 8, 1832.

[36] Thus, Leach Harris was one of the strike-breaking masters, while Lot Wheelright & Sons were leaders of the merchants' committee in opposition to the shorter work day.

[37] *Artisan*, August 1834.

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Nor does the conclusion that all other workingmen's issues were peripheral, as one writer has suggested, seem justified.[38] The Bank War was one aspect of the whole anti-monopoly question. But workingmen favored rejection of all banks and chartered corporations; the Jacksonians merely sought the broadening of the banking base, the destruction of an aristocratic monopoly so essential to the expansion of nascent capitalism.[39] It is also hard to see in what way destruction of the Bank was more of a solution of basic workingmen's problems than a shorter working day, or better conditions of work, or better schools for their children; in what way less peripheral, especially when so many respectable capitalists were themselves quite easily reconciled to the attack on the Bank.[40]

The feature of the 1833 state elections was the candidacy of Samuel Clesson Allen, who had been nominated by the Workingmen of Charlestown, after his endorsement by the New England Association.[41] The Boston Democratic machine tried to win Allen's support for their own candidate, Morton, but the attempt failed.[42] Allen ran against the Democratic candidate but, though he was able to capture ten of the rural towns,[43] he made a weak showing in Boston. In fact, the poorer wards did not show him any preference, indicating that labor was "voting with its feet" even toward a "Workingmen's" candidate. The "Workingmen" who gave him the most support were the farmers of the rural counties.[44]

The municipal elections elevated Lyman to the mayor's office, but by this time he was receiving fulsome praise from the Whigs, despite the fact that he opposed their regular nominee, Sullivan. The Democrats did not present a candidate.[45]

There were two important elections in 1834. In the gubernatorial, the "Workingmen" again nominated Allen, but, despite the fact that Boston's vote rose by almost three thousand, his total remained stationary. The Democrats registered gains in the poorer wards, but,

[38] Schlesinger, *The Age of Jackson*, p. 143.

[39] See discussion in Dorfman, *op. cit.*, ch. 23.

[40] See Darling, *op. cit.*, pp. 130-143; also, Derby, *op. cit.*, pp. 38, 98; *The Boston Advertiser and Patriot*, May 18, 1832.

[41] Commons, *et al.*, *History of Labour*, I, 315.

[42] Darling, *op. cit.*, p. 114.

[43] *Ibid.*, p. 115.

[44] Darling, "The Working Men's Party in Massachusetts, 1833-1834", *American Historical Review* (October 1923), XXIX, 85-86.

[45] *Centinel*, December 11, 1833.

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as usual, these were far less than the party's corresponding advance on a state-wide scale.[46] The congressional struggle was between Abbott Lawrence, erstwhile manufacturer, and William Foster, candidate of the Democrats and the "Workingmen". In this election, labor would have most likely supported *anyone* who opposed Lawrence,[47] but, notwithstanding, the Whig victory was decisive. In the local elections Lyman was practically unopposed.[48]

The year 1835 was marked by internal dissension within the Democratic party, an open split having occurred between the Henshaw "conservatives" and the radical *Reformer* group.[49] On election day Henshaw's *Post* urged all readers opposed to "toll bridges, imprisonment for debt, and to the creation of soulless monopolies and corporations" to vote the regular Democratic ticket.[50] But one day later it vented its spleen on the "Loco-Focos, the Out and Outers, the *Reformer* men who presented their lists of candidates under all sorts of names for Governor."[51] Two weeks later Henshaw's group was to charge that the *Reformer* men had broken their pledge to Morton, and published a ticket headed by George Bancroft for governor.[52] Bancroft, however, seems to have gotten no support at all; the few scattered votes that did not go to regularly nominated candidates were heaviest in places where it was unlikely that they had been cast for a radical Democrat. This bolt, then, did not alter the Boston picture. In the local elections, the Democrats were beaten more decisively than in the state contest.[53]

In the presidential election of 1836, the Democratic party scaled new heights in Massachusetts, and actually won majorities in three of the working-class wards (though a tally of the votes in all five poor wards shows the Whigs to have a majority). Part of this gain was perhaps due to Whig perplexity with the problem of whether to vote for Webster, the "favorite son", or Harrison, the national candidate.[54]

[46] Darling, *Political Changes in Massachusetts, passim.*

[47] *The Artisan,* October 4, October 25, 1834.

[48] *Boston Transcript,* December 10, 1834.

[49] Schlesinger, *The Age of Jackson,* p. 172.

[50] *Boston Post,* November 9, 1835.

[51] *Ibid.,* November 10, 1835.

[52] *Ibid.,* November 24, 1835.

[53] *Boston Transcript,* December 19, 1835.

[54] See the *Independent Chronicle and Boston Patriot,* the *Courier,* the *Centinel,* of November 1836 for conflicting editorial opinions.

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| | Presidential | | | | | | | Congressional | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1828 [55] | | 1832 [56] | | | 1836 [57] | | 1830 [58] | | 1834 [59] | | |
| Ward | W | D | W | D | A-M | W | D | Protection | Free Trade | W | D, Wk | A-M |
| 1 .... | 245 | 52 | 186 | 74 | 57 | 269 | 308 | 135 | 219 | 300 | 220 | 29 |
| 2 .... | 135 | 68 | 76 | 62 | 61 | 105 | 191 | 88 | 187 | 123 | 211 | 31 |
| 3 .... | 218 | 125 | 170 | 135 | 82 | 273 | 263 | 202 | 208 | 316 | 265 | 43 |
| 4 .... | 307 | 97 | 301 | 139 | 85 | 435 | 288 | 370 | 208 | 556 | 258 | 55 |
| 5 .... | 312 | 87 | 393 | 159 | 68 | 497 | 281 | 389 | 245 | 601 | 250 | 17 |
| 6 .... | 211 | 52 | 248 | 72 | 50 | 375 | 193 | 240 | 184 | 477 | 150 | 12 |
| 7 .... | 349 | 71 | 470 | 90 | 60 | 687 | 213 | 500 | 214 | 847 | 200 | 32 |
| 8 .... | 333 | 60 | 395 | 92 | 45 | 524 | 132 | 398 | 215 | 610 | 108 | 24 |
| 9 .... | 187 | 46 | 186 | 90 | 96 | 348 | 141 | 198 | 201 | 321 | 129 | 14 |
| 10 .... | 265 | 57 | 236 | 70 | 103 | 374 | 156 | 257 | 155 | 407 | 168 | 49 |
| 11 .... | 275 | 37 | 283 | 56 | 63 | 383 | 205 | 296 | 142 | 450 | 141 | 30 |
| 12 .... | 285 | 86 | 307 | 145 | 110 | 502 | 523 | 268 | 297 | 500 | 423 | 81 |
| | 3,112 | 838 | 3,240 | 1,217 | 836 | 4,772 | 2,894 | 3,341 | 2,475 | 5,508 | 2,528 | 416 |

Symbols: "W" for Whigs; "D" for Democrats; "Wk" for Workingmen; "A-M" for Anti-Masons. Note: In some cases the totals are not accurate, but they are given exactly as they appeared in the newspaper cited.

[55] *Boston Daily Advertiser,* November 4, 1828.

[56] *Ibid.,* November 13, 14, 1832. These are for state returns, but, according to the *Boston Recorder* of the same date, "the votes for electoral ticket . . . correspond with those for governor."

[57] *Centinel,* November 14, 1836. These are also based on the state returns, but according to the *Independent Chronicle and Boston Patriot,* November 16, 1836, the vote for electors was almost exactly the same.

[58] *Courier,* November 2, 1830.

[59] *Centinel,* November 12, 15, 1834.

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Gubernatorial

| Ward | 1829 [60] | | 1830 [61] | | 1831 [62] | | | 1833 [63] | | | | 1834 [64] | | | | 1835 [65] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | W | D | W | D | W | D | A-M | W | D | A-M | Wk | W | D | A-M | Wk | W | D |
| 1 ..... | 160 | 19 | 220 | 30 | 184 | 26 | 43 | 114 | 88 | 84 | 44 | 305 | 173 | 31 | 48 | 223 | 192 |
| 2 ..... | 101 | 21 | 136 | 47 | 87 | 38 | 73 | 47 | 53 | 90 | 34 | 126 | 163 | 34 | 45 | 115 | 156 |
| 3 ..... | 129 | 71 | 169 | 132 | 192 | 84 | 59 | 126 | 136 | 115 | 53 | 318 | 230 | 45 | 38 | 246 | 210 |
| 4 ..... | 201 | 51 | 299 | 75 | 301 | 47 | 82 | 249 | 139 | 125 | 56 | 565 | 195 | 60 | 63 | 377 | 219 |
| 5 ..... | 244 | 20 | 363 | 88 | 334 | 93 | 65 | 368 | 163 | 102 | 24 | 603 | 227 | 37 | 24 | 438 | 245 |
| 6 ..... | 196 | 4 | 236 | 47 | 236 | 47 | 36 | 228 | 114 | 64 | 24 | 497 | 138 | 21 | 17 | 301 | 111 |
| 7 ..... | 236 | 32 | 364 | 62 | 391 | 39 | 51 | 443 | 122 | 87 | 34 | 850 | 165 | 39 | 37 | 573 | 136 |
| 8 ..... | 233 | 30 | 316 | 54 | 342 | 41 | 51 | 338 | 91 | 81 | 43 | 623 | 107 | 31 | 27 | 467 | 101 |
| 9 ..... | 127 | 19 | 192 | 50 | 180 | 42 | 48 | 154 | 71 | 47 | 35 | 328 | 121 | 18 | 12 | 263 | 114 |
| 10 ..... | 177 | 23 | 260 | 32 | 218 | 32 | 64 | 194 | 55 | 126 | 40 | 412 | 130 | 45 | 42 | 339 | 111 |
| 11 ..... | 222 | 31 | 286 | 32 | 260 | 5 | 36 | 239 | 78 | 86 | 43 | 457 | 100 | 35 | 33 | 346 | 114 |
| 12 ..... | 259 | 66 | 308 | 111 | 280 | 39 | 77 | 242 | 123 | 175 | 89 | 506 | 279 | 12 | 129 | 420 | 276 |
| | 2,290 | 392 | 3,149 | 760 | 3,007 | 531 | 685 | 2,742 | 1,233 | 1,182 | 519 | 5,590 | 1,995 | 406 | 515 | 4,108 | 1,988 |

[60] *Boston Patriot and Mercantile Advertiser,* April 8, 1829.

[61] *Boston Daily Advertiser and Patriot,* April 6, 1830.

[62] *Centinel,* November 18, 1831. The April results are omitted.

[63] *Ibid.,* November 16, 1833.

[64] *Ibid.,* November 12, 15, 1834.

[65] *Ibid.,* November 11, 1835.

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Local Elections

| Ward | 1830 [66] | | 1831 [67] | | 1835 [68] | | 1836 [69] | |
|---|---|---|---|---|---|---|---|---|
| | W | Wk | W | Independ. | W | D | W | D |
| 1 ..... | 166 | 70 | 263 | 107 | 204 | 128 | 215 | 147 |
| 2 ..... | 91 | 63 | 125 | 191 | 66 | 79 | 47 | 123 |
| 3 ..... | 167 | 86 | 254 | 175 | 193 | 95 | 189 | 178 |
| 4 ..... | 266 | 54 | 351 | 216 | 267 | 111 | 289 | 132 |
| 5 ..... | ... | .. | 419 | 209 | 343 | 135 | 319 | 158 |
| 6 ..... | 237 | 92 | 213 | 208 | 251 | 73 | 291 | 99 |
| 7 ..... | 316 | 49 | 392 | 276 | 435 | 75 | 474 | 119 |
| 8 ..... | 335 | 47 | 332 | 220 | 344 | 49 | 388 | 69 |
| 9 ..... | 205 | 46 | 218 | 146 | 184 | 72 | 211 | 79 |
| 10 ..... | 193 | 45 | 216 | 185 | 206 | 89 | 226 | 52 |
| 11 ..... | 229 | 13 | 266 | 203 | 265 | 74 | 306 | 118 |
| 12 ..... | 289 | 76 | 277 | 233 | 281 | 207 | 299 | 395 |
| | 2,828 | 672 | 3,316 | 2,389 | 3,039 | 1,185 | 3,248 | 1,669 |

[66] *Boston Daily Advertiser,* December 14, 1830.

[67] *Centinel,* December 24, 1831.

[68] *Ibid.,* December 16, 1835.

[69] *Ibid.,* December 12, 1836.

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One thing is clear. The workers, when they did have the opportunity to vote for "Workingmen's" candidates, seem to have either rejected or ignored them. The causes of this are open to question; though the "Custom House" wing of the Democratic party solved the riddle to its own satisfaction: these parties of "professional workeys" were a Whig plot; *real* workingmen voted the Henshaw ticket.[70] Oddly enough, the Whigs took an opposite view: workeyism was a nefarious Jacksonian subterfuge. But the spanking Whig majorities were proof of the political acumen of "real" workingmen who recognized their "real" friends—the Whigs.[71]

In Philadelphia the slight labor support that Jackson did receive preceded the Bank War; for Boston the pattern is somewhat different. But the evidence is almost as challenging. Andrew Jackson himself was not supported at the polls by the workingmen, and it was not until the mid-thirties, at the very end of his second term, that his party was able to win small majorities in any of the working-class wards.

A number of factors can be cited as "explanations": the power of Whig merchants in local politics; the voting system (open ballot) with the fear on the part of the worker, perhaps, of voting "wrong";[72] internal dissension within the ranks of the Democratic party, with control in the hands of "non-Jacksonian" conservatives, all of whom, incidentally, were Jackson appointees. The fact remains, however. The "eastern workingmen" who did win some local victories for Jackson in Massachusetts were the yeomen of the western counties,[73] not the workingmen of Boston.

EDWARD PESSEN

THE CITY COLLEGE OF NEW YORK

[70] *Boston Post*, September 7, 1835.

[71] See the *Centinel*, November 12, 1834.

[72] See the *Boston Statesman*, April 3, 4, 1829 for the reforms proposed by Henshaw; reforms, however, which hardly got at the real problem. Also, Darling, *Political Changes in Massachusetts*, pp. 170-171.

[73] Darling, *Political Changes in Massachusetts, passim.*

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## CONTRIBUTORS TO THE JUNE ISSUE

PAUL D. DICKENS is an economist, specializing in the study of foreign investments and the balance of international transactions of the United States. Formerly with the Department of Commerce, he is now with the Treasury Department. During 1948 he was on leave of absence to the International Bank for Reconstruction and Development.

For the past fifteen years EDWARD MEAD EARLE has been professor in the Institute for Advanced Study in Princeton, after having served an equal length of time in the Department of History at Columbia. His principal interests are American foreign relations and military affairs. He is editor and co-author of *Makers of Modern Strategy,* published in 1943, and is now engaged in preparing the Chichele Lectures on American Foreign Policy, to be delivered at Oxford in 1950.

C. DALE FULLER is on leave from the University of Denver where he is an assistant professor of International Relations, member of the staff of the Social Science Foundation, and Coordinator for the summer Institute for the Study of the Soviet Union. He is at present studying at the Russian Institute and in the Department of Public Law and Government of Columbia University, and is Lecturer in Government at Barnard College.

MARGARET G. MYERS is at present professor of economics at Vassar College. She received a Social Science Research fellowship to study the Paris money market in 1931-1932. Her research and writing on financial subjects have resulted in important publications, among them: *The New York Money Market: Origins and Development* (1931), and *Paris as a Financial Center* (1936).

EDWARD PESSEN, who is a member of the history staff at City College in New York, is also a candidate for the doctor's degree in history at Columbia University. The paper which appears in this issue of the QUARTERLY is part of his dissertation entitled *Labor in Massachusetts in the Early Nineteenth Century.*

WILLIAM HARVEY REEVES is a member of the New York Bar, practicing in New York City. During the war he was in government service: with the Treasury Department, Foreign Funds Control, 1941-1943; and with the Department of State, 1943-1945.

ROBERT WARREN is a professor in the School of Economics and Politics at the Institute for Advanced Study in Princeton, N. J. He has served as consultant to the United States Treasury, and as adviser to the President's Council of Economic Advisers.



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# REVIEWS

*China: The Land and the People.* By GERALD F. WINFIELD. Issued in cooperation with the American Institute of Pacific Relations. New York, William Sloane Associates, Inc., 1948.—vii, 437 pp. $5.00.

This book by Gerald F. Winfield is probably the clearest analysis of the problem of modern China that has yet been published. It is vivid and dramatic writing, completely honest and realistic, and gravely disturbing. It is a report based upon thirteen years of intensive work in China by a research biologist whose approach to the problem was not along scientific lines alone, but also by the broad road of Chinese culture and economy. It states the hard facts of China's rebuilding with great understanding and unusual intellectual courage and should be required reading for any American who plans to work in the China of the future. It should also be studied with great care by the Chinese themselves.

There are two parts. The first is a statement of the facts of China —the geographic and human foundations, the agriculture, the daily life and commerce, health, education, language, government and, finally, the effects of war. It is like a visit to China with the confusion of the immediate scene brought into clear focus. From the chapter on agriculture it becomes clear that the major reason why the Chinese farmer is poor and his yield per man is low is that China is overpopulated. The farms are too small for maximum productive operation. The chapter on diet, clothing and shelter adds up to one fact —poverty. The small scale of commerce and industry, the lack of modern transportation, the limited life in the cities, complete the picture of a nation that is poor and a standard of living that is very low.

The chapter on health is brilliant and stark, pointing up the high death rate with 75 per cent of all deaths due to preventable diseases. China is likened to a balanced aquarium wherein the plants and the fish create a reciprocal life cycle, each depending on the other, with the snails acting as the scavengers. In China, "the food habits and diet of the population have become closely adapted to the crops the land can best produce, and land utilization has been empirically adapted to produce those things providing the most food for the larg-



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est number of people." In this integration, the pig is both a major source of meat and a scavenger; human waste is utilized as fertilizer for plant food; and fecal-borne diseases act to cut down the population that has developed on the limited land.

The final chapter of Part I pictures the disastrous effects of war upon a great but outmoded civilization and pays high tribute to China's contributions in World War II, in the face of overwhelming difficulties.

Part II takes up the problem of rebuilding China. It begins with sanitation as the logical starting point and develops a constructive program that would continue the use of human waste as fertilizer, after composting in such a way as to destroy all pathogenic organisms and provide vegetable matter necessary to better fertilizer for agricultural production. This program leads naturally to expansion of agriculture and improvement of the standard of living. To that end Dr. Winfield proposes that at least half the present farm population must be shifted to other means of production in order to make possible an increase in farm size and the resulting improvement in productive efficiency. Into this adjusted relationship, he proposes to introduce scientific methods, mechanical aids, low-cost farm credit, education and research.

To absorb the millions removed from agriculture he turns to industrialization. For the purpose of outlining the dimensions of this problem, he calculates what would be involved in building in China a capital manufacturing plant equal to that of the United States in size and output during the period 1926-29—which would raise the present standard of living in China over 600 per cent but attain a level about one-fifth that of the United States in 1929. He concludes that China has the natural resources that, with careful planning, could achieve such a development, provided she has assistance in capital investment and technical know-how from abroad.

The major obstacle to such an achievement is the control of population growth. If China's present birth rate is maintained and the death rate lowered, in the pattern set by Japan and others, China may expect a population of 800 million by the end of the century. Under these conditions the farm population would remain as dense as at present and there is little hope of raising the standard of living. Dr. Winfield proposes that China cannot afford to reduce her death rate until she is ready for a concurrent reduction of the birth rate which he believes will come under the impact of industrialization. In his program of public health he therefore places the prevention and control of con-

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tagious diseases last of five steps, although it is normally the cheapest and first or second in importance.

There follows a chapter on "Education—The Prime Mover", and a final chapter which examines the problems of communism and the applicability of the communist program to China's needs.

This is a very great book, and if I have any criticism, it is that the author is an American and for that reason involuntarily sees the problems and solutions from the vantage point of American philosophy, although with deep understanding of the Chinese scene. In the final analysis, China's salvation depends upon the Chinese mind which must come to understand these same facts as clearly as the American and must fuse into the rebuilding process the enduring elements of Chinese philosophy upon which this great civilization was built and which are an expression of the character of the people.

Dorothy J. Orchard

New York, N. Y.

*New Paths for Japan.* By Harold Wakefield. Issued under the auspices of the Institute of Pacific Relations and the Royal Institute of International Affairs. New York, Oxford University Press, 1948.—vii, 223 pp. $3.75.

The first half of this book is a revision of a report by a Chatham House study group entitled *Japan in Defeat* and published in 1945. The second half describes the wartime developments of Japan, the political, social and economic changes which have taken place during the first eighteen months of the occupation and concludes with a short prediction of what may be Japan's new paths.

It is unfortunate, so long as half of this work is a revision, that the author did not make more extensive changes in the first part. For example, the important aspects of the old constitution of 1889 (p. 10) could have been clarified. Furthermore, the great weakness in the old constitution was that it made no provision for cabinet responsibility, nor did the Diet have independent budgetary powers. Under these circumstances one cannot leave unchallenged the statement that "party politics was often disheartening to Japanese liberals, but until 1937, and possibly until 1940, constitutional advance seemed a reasonable hope for enlightened men" (p. 54). No amount of enlightment under the old constitution could have prevented the dissolution by the government of a recalcitrant Diet or the overthrow of a liberal cabinet by the resignation of the War or Navy ministers, but a nation-wide determination might have forced constitutional

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changes. In the section on Buddhist influence on the growth of militarism (pp. 27-29), no mention is made of the profound influence of Nichiren on militant nationalism and jingoism.

In the discussion of early Japanese foreign relations, the statement that "there was for Japan only one great foreign nation, and that was China" (p. 45) ignores completely Russian threats against Japan in the early nineteenth century and Japanese fears that Russia might attack Japan. Furthermore, mention should have been made of the obvious reason why "the United States became increasingly important for Japan" (p. 49), namely, that the United States, through the acquisition of Hawaii and the Philippines, became a Pacific Power challenging Japan's position in the Far East.

The remainder of the first part of the book, while adding little new information, is a helpful resumé of the influence of education on Japan, the rôle of women, the economic background, the population problem and the farmer.

The second half of this book deals with the war and the occupation until the formation of the Katayama Cabinet in 1947. The author has not, as have many others recently, written to prove a particular point of view, nor has he been in Japan since surrender and thus felt compelled to publish his observations and reactions to the occupation. Rather, he has based his conclusions on published reports and on a translation of the famous Konoye diary. As material not used by the author is now readily available, including several important publications of the Department of State such as *Activities of the Far Eastern Commission*, 1947 and 1948, *Occupation of Japan, Policy and Progress*, 1947, this book cannot be considered as a definitive analysis of the occupation. It is, however, a good objective study of the first year and a half of the occupation. One of the most interesting chapters is that on Japanese war guilt (pp. 162-172).

The use by the author of only a limited amount of source material has led, however, to several questionable conclusions. For instance, in describing the new constitution (pp. 146-153), Mr. Wakefield fails to mention some of the most important innovations, namely, that sovereignty now resides with the people, that cabinets are made directly responsible to the Diet and that the Diet has complete budgetary powers. In view of the fact that the proceedings of the Far Eastern Commission are closed and those of the Allied Council for Japan are public, it is natural for the author to infer that the latter has played the more important rôle in the occupation of Japan. A study of the Commission's published reports indicates its importance, however, in the formulation of Allied policy. Finally, it would

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have been closer to the truth if the author had maintained that the extent of liberalism in the first Yoshida Cabinet was measured by its unwillingness to stabilize prices, rather than to claim, as he does, that the measure of the government's weakness was its inability to stabilize prices (p. 193).

A few minor errors might be noted. Premier Hamaguchi is usually referred to as Yukio Hamaguchi, not Osachi (p. 33). The United States government sent General MacArthur an initial policy statement on Japan on August 29, 1945, not a directive (p. 127); the directive is dated November 1, 1945. The Allies did not seek "the mediation of the Soviet Union" early in August 1945 (p. 143); Soviet participation in the war had been settled at Yalta in February 1945. The statement that Japan had a favorable balance of trade in the first year of the war (p. 188) needs clarification.

In spite of these limitations, the reader will find in this compact volume a valuable guide to the main forces in modern Japan.

HUGH BORTON

COLUMBIA UNIVERSITY

*Political Power in the U.S.S.R., 1917-1947: The Theory and Structure of Government in the Soviet State.* By JULIAN TOWSTER. New York, Oxford University Press, 1948.—xvii, 443 pp. $6.00.

For a discouragingly long period of time, instructors who have been assigned the task of teaching courses on Soviet public policy have encountered a difficult problem in finding an adequate text. The choice has been between some standard work which is sadly out-of-date and something so highly colored by the proselytizing efforts of the author that it can be classified as a text only in a very restricted sense. These instructors, few though they may be, will doubtlessly find Dr. Towster's book a welcome relief after the deluge of propaganda, extolling or condemning, which has flooded the market in recent years. This new volume is up-to-date (1947) and is neither an apology for nor a criticism of the Soviet political system. At the same time, it is doubtful that this book will gain the attention to which it should be entitled as a classroom text, especially on the undergraduate level. It is not written in an attempt to inspire interest on the part of the student who is being introduced to the subject of Soviet government, and the brevity and conciseness of its paragraphs will do little if anything to overcome the resistance so frequently encountered in specialized courses. Since the book has most of the advantages and disadvantages of an encyclopedia—it is a "shotgun"

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approach—it will probably be more useful as a reference work than as a text.

The author notes in his preface " the desirability of aiding further researches on specific problems through suggestive footnotes and bibliography based primarily on original sources." The aim is certainly a commendable one, although the purpose may be defeated, through no fault of the author's. Clearly, the type of research which he has in mind involves work on the graduate level, and, even so, the footnotes and bibliography involve, for the most part, research materials not readily available to the average scholar who is otherwise prepared to undertake such work.

A conscious effort to be " objective " is clearly evident, and the impression is given that the author has sometimes leaned over backwards in an attempt to avoid entanglement in a number of controversial issues—those which are torn apart with so much gusto by the persons who write primarily for popular consumption. This inclination tends to impart a " source book " quality to the work, and the sources referred to are largely the utterances of leading Communist party officials or the published programs of Soviet institutions. The " official sources " may or may not give us an adequate picture of the exercise of political power within any given community, but in any system we might expect some disparity between the word and the deed. Many accounts of the U.S.S.R. are attempts to indicate the extent of this divergence; Dr. Towster's book, a truly remarkable survey of documents and statements, emphasizes the word at what may be the expense of the deed.

Theory is emphasized throughout the book, and this is certainly a strong point in its favor since the accomplishments of any community deserve to be judged in the light of its own ideals. It should be noted that the " theory " here is that which has been compiled from official statements, rather than one which the author has arrived at by his own independent induction. For example, the theory of sovereignty as the official Communist party theorists view it is treated in some detail; but those readers who expect to find criticisms, or references to criticisms, on the official point of view will be disappointed. Dr. Towster does not express his own opinion as to the validity of these theories and interpretations, something which he is eminently qualified to do.

The evolutionary approach, used in connection with the development of theory as well as of institutions, demonstrates very well the element of expediency and the ability to make rapid adjustments in Soviet practice. But in any " trial and error " system the effects of

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the error cannot be entirely erased, and here the picture presented by this book is somewhat vague. It is to be noted, however, that the author has succeeded in minimizing the distortion ordinarily associated with the evolutionary approach, and in most instances the elements which remain in Soviet practice are not thrown out of their proper perspective by a running recital of those elements which have changed. There are exceptions, however, as is evidenced by his treatment of the "socio-political balance" (chapter xiii).

Again in the preface, the author refers to "the obvious lacunae in existing information on public administration in the U.S.S.R." The book's contribution in this respect (outside of several suggestive footnotes) is not as great as it might be hoped. For example, in several places reference is made to the "fight against bureaucracy", and a little attention is paid to the nature of this struggle. But not enough information is supplied, except in a very general way, on the nature of the Soviet bureaucracy; and many of the important questions are ignored. The relation between the Soviet citizen and the administrative organs of the state are not treated to the extent that they deserve in a totalitarian system. Likewise, the nature of Soviet federalism is explored only in general terms; while the power of the federal government to void "unconstitutional" legislation passed by the constituent republic is mentioned, the frequency of such action and the kind of legislation which has actually been declared invalid are not discussed.

This volume contains specific sections devoted to such political institutions as the soviets, the courts (but not the codes of law), the party, the Procurator and the Army, each of which is well analyzed in its rôle as an organ of the Soviet state. But Soviet trade unions are mentioned only in scattered references, and then merely as one of the "mass organizations" (p. 91n) or one of the "conductor-belts" (p. 147) for the dictatorship. This treatment is difficult to justify, especially in view of the fact that Stalin and others have noted the importance of unions as political institutions, even so far as considering them "inevitable for the victory of the proletariat".

Within its recognized limitations, Dr. Towster's book is an important contribution to a field of study that has been generally ignored by scholars in the past decade. When (and if) source material on the Soviets becomes more readily available this volume will be of great value in aiding students in their search for information on the Soviet system.

JAMES WATSON

THE UNIVERSITY OF OKLAHOMA

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*The German Opposition to Hitler: An Appraisal.* By HANS ROTHFELS. Hinsdale, Ill., Henry Regnery Company, 1948.— 172 pp. $2.50.

The wartime view that there was no real German opposition to Hitler has been largely dissipated in recent years by the appearance in this country of such works as Allen Welsh Dulles' *Germany's Underground*, Schlabrendorff's *They Almost Killed Hitler*, and the diary of Ulrich von Hassell. There is, however, a lingering tendency to think of the resistance solely in terms of the coup of July 1944 and to regard this as a kind of second Kapp Putsch, engineered for selfish reasons by a clique of generals. In his new study, Professor Hans Rothfels seeks to correct this view once and for all.

The German resistance to Hitler, he argues, was "much broader and more principled than current views of the German character or an insight into totalitarian dynamics could ever have suggested." If the conditions of life in a police state—which cannot be appreciated by those who have not experienced them—made an effective mass movement of resistance impractical, there was, from 1933 on, a tremendous "silent opposition" in Germany, an opposition which sought to maintain human integrity and standards of decency not only by passive resistance but by studied acts of nonconformity—aid to refugees, administrative sabotage, movements of religious protest and the like. The aspirations of these nameless hundreds of thousands guided the plans of the conspiratorial spearhead which organized the rising against Hitler. This group of leaders, however, was no military junta, but rather a group which represented all elements of society, church and labor, business and intellectuals, army and aristocracy, and which was equipped with a network of cells reaching down into small communities all over the country.

In his analysis of the component elements of the conspiracy and the activities of its members, Professor Rothfels marshals more than enough evidence to prove his main point—namely, that the Germans were by no means as "submissive" as they were described to be by wartime publicists in the West. In his eagerness to establish the historical importance of the German resistance, however, the author tends at times to overstate his case. Thus, he argues that "the German opposition to Hitler, by the very adversity of the conditions under which it had to operate, as well as by the response it made to this challenge in basically human terms, won a potential significance which transcends that of any merely national or social movement of liberation." The terminology here is obscure, but the French re-

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sistance would, I suppose, qualify as a national movement of liberation and it would surely be mistaken, if not meaningless, to suggest that it was of less "significance" than the movement on the other side of the Rhine.

To insist upon such a comparison is, however, probably unfair to Professor Rothfels' argument. In his eyes, the exceptional nature of the German movement lies in the fact that it was an essentially spiritual one—the movement of a "vanguard fighting against hope and with no national and social rewards within its reach." One may suspect that the German Communists, who are not treated at length in this study, had more materialistic aims than this statement implies; but it is true, as the author says, that many of the leading spirits of the July plot "lived and died for the idea of atonement." Deprived of all material and psychological aid from abroad, they went ahead with their plans in the hope that they might contribute to the moral rehabilitation of their country.

This book is a very convenient guide to the large and growing body of material now available on the German resistance; and the author has performed a service also in indicating some of the gaps in the story which historians must fill. Many aspects of the pre-war period are still obscure—the resistance activities of Treviranus and Bruening in 1934, the nature of passive resistance within the army during the Hammerstein and Fritsch periods, the strength, tactics and aims of the Communist underground. The extent to which the professional diplomats attempted to modify Hitler's foreign policy is still not clear, although more information may be available when, and if, the captured German Foreign Office documents are opened to historians.

Finally, Professor Rothfels' vigorous criticism of Allied failure to take the German resistance into account deserves serious consideration by students of American wartime policy. Mr. Sherwood, in *Roosevelt and Hopkins*, has revealed that United States policy after September 1941 was based on the assumption that "the overthrow of the Nazi regime by action of the German people is unlikely in the near future and will not occur until Germany is upon the point of military defeat. Even were a new regime to be established it is not at all certain that such regime would agree to peace terms acceptable to the United States." When one reads Professor Rothfels' account of the frequent attempts made by German opposition leaders to inform the Allies concerning their plans and, specifically, to solicit advice as to the kind of government which would be acceptable to the Allies, one finds it difficult to explain the failure to modify this view.

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The American refusal to exploit the German resistance at least for purposes of psychological warfare remains one of the great mysteries of our wartime policy.

GORDON A. CRAIG

PRINCETON UNIVERSITY

*Report on the Greeks.* By FRANK SMOTHERS, WILLIAM HARDY MCNEILL, and ELIZABETH DARBISHIRE MCNEILL. New York, The Twentieth Century Fund, 1948.—xvi, 226 pp. $2.50.

The decision taken by the United States in March 1947, to grant assistance to Greece in its struggle against Communist infiltration, has proved to be a turning point in American foreign policy. Its further extension in the form of the European Recovery Program has met with the full support of public opinion. Yet the people of a democracy must remain constantly vigilant as to the policies of their government, and numerous questions have been raised in the American press in the past two years which have tended to cast doubts on the assumptions underlying the aid to Greece. Why has Greece found it so difficult to resist Communist infiltration? What is the true state of Greek opinion regarding the various factions struggling for power? How can the United States assist most effectively in strengthening Western-type democratic institutions in Greece, in view of the political and economic institutions existing in that country?

It was with a view to providing material for answers to questions such as these that the Twentieth Century Fund sent an able team to Greece, and its *Report* constitutes a survey of the situation in that country as of June 1947. The basic problems of Greece have changed little since that date, and this volume contains much information to help the average citizen understand, as he studies his income tax forms, why some of his money must be sent to Greece. The greater part of the *Report* is taken up with a vivid description of the Greek people and their social life, education, religion and health. The poverty of the peasants and the workers, who constitute respectively 65 and 22 per cent of the population, is clearly set forth, and the problems raised by Greece's surplus population are properly emphasized. These basic problems, when added to the hardships which Greece experienced during the depression and in World War II, go a long way to explain its present political instability. The *Report* presents this material very clearly, using such facts and statistics as are available for post-war Greece.

In treating of current Greek politics, the authors of the *Report* base their information on their own observations and on interviews with

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Greek leaders of all parties. It is their conclusion that the E.A.M. coalition did enjoy broad popular support during the war, but has become a relatively small group under Communist domination since 1945. While they are not very confident as to the honesty of the supervised elections held in 1946, the authors believe that a majority would have voted against the E.A.M. in any case. While these are balanced judgments with which few would differ, the attitude of the *Report* toward the present Greek government indicates a certain narrowness of outlook. The authors employ such strong language in condemning the admitted excesses of the Populist government, that they would have few terms of opprobrium left in their vocabulary if they had to describe the far harsher régimes to the north. Moreover, the authors are still uncertain at this late date as to the nature of Communist intentions. They believe that Communist strength depends on a "mass movement" (p. 41), and they have not fully made up their minds whether the Communists would honor their pledges if admitted to a coalition cabinet (p. 208). This indecision on the part of the authors, and the rather fragmentary and inconclusive character of their recommendations (pp. 224-26), tend to reduce the value of an otherwise informative and readable volume.

C. E. BLACK

PRINCETON UNIVERSITY

*Mandates, Dependencies and Trusteeship.* By H. DUNCAN HALL. Washington, Carnegie Endowment for International Peace; London, Stevens & Sons Limited, 1948.—xvi, 429 pp. $5.00; 25*s*.

This intensive analysis of international trusteeship is the latest volume in the Carnegie Endowment's useful "Studies in the Administration of International Law and Organization". Its framework is set in an introductory chapter which develops the concept of the international frontier, formed by "the zones where great-power interests come together in conflict" (p. 3). In this international "no man's land", and nowhere else, Mr. Hall argues, have appeared mandates, trusteeship, dependent peoples. Such an approach makes it possible for him to place in the perspective of the workings of the state system a thoughtful comparative study of mandates and dependencies which is the first major part of the book. This section, which was circulated at the San Francisco Conference in 1945, brings out clearly the limitations of the mandate scheme, in the light of which any judgment of its operation must be made.

In Part II, an outline of the background and establishment of the League mandate system, Mr. Hall makes use of excellent new materials.

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Especially pertinent are those drawn from the Paris Peace Conference volumes of the *Foreign Relations* series, recently issued by the State Department. Here too the circumscribed objectives of the governments drafting the mandate proposals appear. The reviewer would interject the minor criticism, however, that insufficient attention is given to the schemes suggested by various nonofficial individuals and groups during the course of World War I.

An analysis of the League mandate system includes a detailed description of the procedures of the Permanent Mandates Commission and a survey of the application in the mandates of such international conventions as those dealing with slavery, the arms traffic, liquor, the open door. Once again important new material is employed, this time the notes drafted by the late Lord Lugard for a study of mandates undertaken for the Royal Institute of International Affairs. A final rather routine section gives chapter and verse of the conclusion of the mandate system, and an epilogue indicates briefly some of the obvious comparisons between mandates and United Nations trusteeship. The account, incidentally, leaves one with little optimism about the success of trusteeship, though perhaps this was not the lesson the author intended.

Aside from the sections on background and workings of the League mandates, the most useful portion of this volume is a series of annexes comprising about one fourth of its contents. The usual documents are included—Article 22 of the League Covenant, Chapters XI-XII of the United Nations Charter—but in addition Mr. Hall prints the texts of sample mandates, various documents dealing with the work of the Permanent Mandates Commission, the texts of trusteeship agreements approved by the United Nations General Assembly, and a host of other such materials.

On the whole, this work has made available those materials as part of a sober, informed interpretation of the administration and organization of trusteeship since World War I. If the impact of such administration and organization upon native populations—or even upon the various trusteeship Powers—is not always particularly apparent, it should be kept in mind that this was hardly the problem the author set for himself. Mr. Hall has judged that the League mandate system was successful within the bounds its framers imposed on it. Similarly the reviewer would judge that this work is successful as a contribution to the understanding of those selected aspects of the system chosen for discussion in its pages.

HENRY R. WINKLER

RUTGERS UNIVERSITY

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*Austria from Habsburg to Hitler.* Vol. I: *Labor's Workshop of Democracy.* Vol. II: *Fascism's Subversion of Democracy.* By CHARLES A. GULICK. With a Foreword by Walther Federn. Berkeley and Los Angeles, University of California Press, 1948.—xxi, xi, 1906 pp. $20.00.

Dr. Gulick, who is professor of economics at the University of California, has, over many years, collected a vast store of knowledge concerning the Republic of Austria. Much of this knowledge has been crowded into the almost two thousand pages of the work under review. Unhappily, in the opinion of this reviewer, he has lessened the possible value of his factual contribution by presenting it in the form of a strongly partisan brief on behalf of socialism and a bitter attack against those who, in word or action, fought against the socialist heroes of his story.

In his introductory remarks the author forthrightly states his view that "whenever possible the social scientist has not only the right but the duty to draw conclusions from, and express value judgments on, the factual evidence available" (page 11). Dr. Gulick certainly has a right to hold this opinion; but it seems to me that, in these two volumes, he has far overstepped even his own definition of his "duty" as a social scientist. His expression of conclusions and value judgments on the antisocialists assumes the proportions of a tirade, in the latter's dictionary meaning of a "prolonged declamatory outpouring of censure or dislike." As such, his effort would seem to be far less useful even in propagating his own ideas than would have been a more moderate, calmer, and better-balanced presentation of the same facts.

Certainly all was not waltzes and *Gemütlichkeit* in imperial Vienna. Certainly there was urgent need for social reform in old Austria. Certainly the industrial workers of Austria had reason to want more influence in the determination of political policy. Certainly there was receptivity among many groups in Austria for the blandishments of what the author calls "clerico-fascism". But equally certainly, Austria could not between 1918 and 1938 be divided simply into well-intentioned "democratic" reds and evil-thinking "fascist" blacks. And yet it is just such a classification which emerges from the text under review. Moreover, the work, despite its broad title, places much more emphasis on the happenings in Vienna than in the rest of Austria, on the industrial workers than on the more numerous peasants, and on domestic party strife than on national economic development and international political and trade relations. Given the author's frame of reference, this emphasis may be defensible; but the result is not altogether satisfying.

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A few examples of the author's method are in order. Beginning on page 1091 he discusses libel suits against the leftist *Arbeiter Zeitung* under the strict press laws. He admits that "there was no excuse for some of the matter printed." And then he promptly tries to "explain" the paper's admittedly inexcusable actions on the basis of extenuating circumstances. He also uses as a defense for the leftist sheet the argument that certain charges against it came with "questionable grace from a government . . . which was afraid to submit some of its pronouncements to printed criticism." Finally, he advances on behalf of the *Arbeiter Zeitung* the strange excuse that, after all, "most persons of democratic inclinations believe that anyone should be allowed to publish whatever he pleases, short of pornography, and assume the liability for suits under statutes forbidding slander, libel, and defamation of character."

In discussing the assassination of Dollfuss in 1934, the author seems to go out of his way (page 1663) to make the "clerico-fascists" seem even more wicked than the Nazi murderers. On pages 1358-1359 he explains that "one important reason" why some of the "practical statesmen" of the West failed to check such men as Fey and Starhemberg in time was their hatred of anything socialistic, "which they seem to absorb with their mothers' milk." On page 1670 Dr. Gulick says: "The members of the Schuschnigg cabinet were overwhelmingly aristocrats, or Fascists, or both. . . . Four had some title of nobility." The reader is left with the distinct impression that the fact of "aristocratic" background automatically put wickedness into the personal make-up of the unfortunate possessors of noble titles.

In conclusion let it be noted that the reviewer (who was in Austria three times during the period under discussion, who happened to be in Vienna on the day that Dollfuss was killed, and who, like the author, talked to many persons in Austria and read much of the current newspaper literature) opened these two attractively designed volumes with pleasure and anticipation, but closed them in disappointment. Dr. Gulick had much to contribute to our knowledge of Austrian events in the twenty years of armistice between the two World Wars; but his emotional approach has, I believe, made less useful this public presentation of the facts which he has collected. The volumes probably will appeal to confirmed leftists, but they leave cold the reader who still prefers facts to briefs by defense counsel.

WALTER CONSUELO LANGSAM

WAGNER COLLEGE

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*Politics among Nations: The Struggle for Power and Peace.* By HANS J. MORGENTHAU. New York, Alfred A. Knopf, 1948.—xvi, 489, xix pp. Trade, $5.50; Text, $4.25.

To the list of works available for college courses on contemporary world politics Professor Morgenthau of Chicago has added an original, thought-provoking volume which endeavors to explain international relationships in terms of power politics.

The author believes that foreign policies and international actions being political in nature are universally governed by considerations of power. He has elaborated the detailed workings of power politics and reduced the subject to a logical system. In so doing he has gone a step farther than other text writers in providing a theory around which to hinge the study of international relations.

The general plan of the book is first to identify the struggle for power and outline some of the realms in which it operates, second to delineate the elements of national power, third to explore various limitations of power, and finally to examine the methods by which nations have sought and may seek to preserve peace.

The essential elements of national power are catalogued, and a section on the "Evaluation of National Power" points to many questions, difficulties and errors which arise in trying to equate the power of different states. Unfortunately this analysis ends without giving a comprehensive picture of the power line-up as it exists in today's conflict.

The author explores various devices by which the dangers of "total war waged by total populations for total stakes" may avert total conquest or world destruction. These he classifies as (1) "Peace through Limitation", by disarmament, security, judicial settlement, peaceful change, and "international government" (Holy Alliance, League of Nations, and United Nations); (2) "Peace through Transformation": approach to the world state by domestic peace, conquest, confederation, or by the cultural-functional organization approach; (3) "Peace through Accomodation", by the media of compromise and diplomacy. In the end he concludes that neither the balance of power—the "normative limitations" of international law, ethics, morality or public opinion—nor the United Nations, nor the ideal of world government holds real hope for us today. The balance of power he regards as a "crude and unreliable method of limiting the aspirations for power", ineffective in a day when states are deliberately seeking world dominion and society is confronted by the present characteristics of total war. Admitting the need of an

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ultimate ideal of international life Professor Morgenthau has only "the techniques of persuasion, negotiation and pressure, which are the traditional instruments" of the old diplomacy as the basis on which men of good will can join in attaining such an end. Some will be inspired to try this again. Others may exploit this, as they always have, in attempts to gain world domination. Others will throw up their hands or resign themselves to destruction.

Although the author states that he covers "the traditional subject matter of courses in international relations", with special emphasis, numerous topics which customarily are or should be included in introductory courses on international relations are either omitted or treated in such a narrow frame of reference that the student comes out without a full appreciation of the breadth and complexity of modern international relations. For example, no broad panorama of the historical development of international relations is given. Ideologies are treated in the context of making participation in power politics psychologically and morally acceptable to the masses. The description of nationalism is deplorably brief, lacking in historical perspective, and incomplete in analysis of the characteristics and methods of its propagation. The formation of national foreign policy is not treated. No comprehensive account is given of the subject matter of international law. The United Nations is treated in such a specialized manner that classes will gain little appreciation of the extent, character, or constructive nature of U.N. activities in the economic, social, humanitarian, trusteeship or technological fields. Very few of the situations which have come before the United Nations are analyzed. There is no general description of the functioning of international bodies. Regionalism is dealt with only as an ideology. The field of international economic relations is not touched. Finally, one must add that the rôle of personalities in international affairs is largely crowded out in the process of reducing international politics to a logical system.

This recital of omissions is not intended as a disparagement of what Professor Morgenthau has written. He has produced a distinctive contribution to the literature of international relations. The abovementioned omissions are noted rather by way of hope that this pioneering effort may be strengthened and matured to meet more fully the needs of teachers and students.

In sum, *Politics among Nations* in its present form impresses this reviewer as being more of an essay than a textbook for the introductory course in international relations. It will afford an excellent basis for discussion in any class. It is a valuable plotting out of the subject matter of power politics. It gives international relations

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a focus which it has lacked in many other books. It can be profitably used with students who have a broad background of knowledge concerning contemporary world affairs, international law, foreign policy, international organization and economics.

NORMAN J. PADELFORD
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

*The Army Air Forces in World War II.* Vol I: *Plans and Early Operations, January 1939 to August 1942.* Edited by WESLEY FRANK CRAVEN and JAMES L. CATE. Chicago, The University of Chicago Press, 1948.—xxxi, 788 pp. $5.00.

*The Procurement and Training of Ground Combat Troops.* Vol. II of *The Army Ground Forces. The United States Army in World War II.* By ROBERT R. PALMER, BELL I. WILEY, and WILLIAM R. KEAST. Published by the Historical Division, Department of the Army, 1948. Washington, United States Government Printing Office, 1948.—xi, 696 pp. $4.50.

Volume I of *The Army Air Forces in World War II* is the first of seven projected volumes to be published as the official history of the Army Air Forces during the war. Five of the seven volumes are to deal with combat operations. The sixth volume is to deal with the procurement of aircraft and the training of air personnel; the final volume will cover all of the service activities needed to maintain air combat operations.

*The Procurement and Training of Ground Combat Troops* is the second volume published by the Historical Division of the Department of the Army and is again a volume on the Army Ground Forces. While the present plans of the Army Historical Division call for many more volumes than those in the official Air Forces history, the scope is also much larger. In addition to a history of the Army Ground Forces, there will be a number of volumes published on the Army Service Forces, the third great command in the Army during World War II, as well as volumes about Army top command and overseas operations in various parts of the world.

Both volumes give continued promise that the official historical work of the Armed Forces will maintain a high level of achievement.

Even if the historian is permitted free access to materials and an opportunity to express his convictions based upon those materials regardless of sensitive toes, the problem is still ever present of the readers to whom the historian addresses his writing. The problem is well illustrated by these two volumes. It is very doubtful indeed

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whether the "average" citizen, which I assume here to include the "average" historian, will be much interested in this second volume of the history of the Army Ground Forces. Yet the volume is undoubtedly a most important one.

The first volume in the seven-volume series about the Army Air Forces is intended to be somewhat more popularly written and so no doubt intended for a much larger audience. It will have more general interest.

The early history of the Army Air Forces is contributed by a number of different individuals and covers a wide field. The first two chapters briefly sketch the ideas about air warfare which developed between 1919 and 1939 and the continued organizational problem of how to fit the air arm into the organization of the Army and of the War Department. The next three chapters report the major developments for the American Army Air Forces as a result of the outbreak of war in Europe and the preparation for our own defense. The chapter on Pearl Harbor and Clark Field seems to be a fair summary of the initial disaster which overtook the American Army as well as the American Navy on December 7, 1941. So much attention in this country has been given to the circumstances of the attack on Pearl Harbor that few realize the major defeat which was inflicted upon the Army Air Forces in the Philippines on December 8. And there is controversy about why so many planes were caught on the ground and destroyed before they could ever be used to stem the Japanese attack. As the author notes: "In less than one day of hostilities, the strength of the Far East Air Force had been reduced by half" (p. 213). The author of this chapter, Richard L. Watson, has made no attempt to whitewash the unpleasant facts or to deny the confusion which accompanied the opening of hostilities in the Far East.

Perhaps the general reader will be most interested in the 7th and 16th chapters of the volume which deal with the early determination of military strategy and the plans and policies for the employment of the Army Air Forces. Both chapters have been contributed by Mr. Cate. For the first time it becomes clear that General Arnold, as head of the Army Air Forces and from the point of view of the interest of his own service, agreed fully that the first enemy to be defeated was Hitler. While the Air Forces did move to strengthen the Pacific as far as possible, the air command was eager to mount an air offensive against Germany from England. Not only was air attack feasible before ground operations on the continent could be started, but here was the great opportunity to demonstrate the air-

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man's optimism about the strategic effectiveness of air power employed alone against the enemy. There were no bases in the Pacific from which we could launch a great air attack against Japan itself. In Europe there were the British Isles, where our bomber bases could be quickly provided.

The immediate story after December 7, 1941, is not complete either without recording that for the time at least the Army Air Forces decided to give up its claims for separate status. As Mr. Cate puts it: "Rather than return to the public campaign for a separate department of air, they [the AAF leaders] now directed their efforts towards securing greater powers within the War Department" (p. 259). In this the Air Forces was successful and the reorganization of March 9, 1942, gave it most of what it wanted.

Also under the heading of new information is the background account of how General Eisenhower became the Commanding General of the European Theater of Operations in June 1942. In April 1941, Major General James E. Chaney, a senior air officer, was ordered to London to command the Army Special Observer Group, an American military mission. His task was, among other things, to prepare for the possible establishment of American Ground and Air Forces in the United Kingdom, to assist in allocating Lend-Lease matériel, and to observe British military plans and operations. In the autumn of 1941, however, Chaney became involved in an extensive argument with the War Department about the organizational plans for a possible American Army Force in Great Britain. Although an airman himself, Chaney apparently disagreed with General Arnold about the creation of a separate Air Force command in the British Isles. In January 1942, Chaney became Commanding General of the United States Army Forces in the British Isles. But the argument with General Arnold continued. According to the account, Arnold wanted a separate Air Force command whose operational use he could direct from Washington even though nominally placed under a single military head in Great Britain. Chaney opposed this with the result that he survived long enough to serve as Commanding General of the European Theater of Operations from June 8 to June 20, 1942. General Chaney then disappeared from view and his name is probably unknown to all but a few Air Forces officers. He ended up the war as commander of the island of Iwo Jima. His successor in June 1942 was a man from General Marshall's staff who knew more about the ideas of how the Air Forces was to be organized and used than apparently General Chaney did. That officer's name was Eisenhower. (See chapter 16.)

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The volume on the Army Air Forces ends with the account of the first employment of the B-17's against a continental target on August 17, 1942, the famous raid upon Rouen.

The volume on the Army Ground Forces has a much more limited appeal; and yet actually it raises one of the fundamental administrative problems of World War II, as well as one of the greatest failures. The title is perhaps somewhat misleading; for while there is much about the kinds of schools set up and the type of training given to ground combat troops, throughout every section runs a common theme. The training program was always circumscribed by the personnel selected for combat units. The Army Ground Forces often found itself at the tail end of the list when it came to receiving available manpower. There were the Navy and the Army Air Forces ahead of it, and even sometimes the Army Service Forces received the choicer personnel. The Army Ground Forces had to cope with either men who were too old for combat duties or men who ranked low in the Army general classification test which was intended to measure "capacity to learn". In other words, this volume is really one in Army personnel administration.

It was in the field of mobilizing our manpower resources that our government in World War II experienced its greatest failure. This volume recounts the consequences from the point of view of the Army Ground Forces. Other volumes are needed to complete the record. There never was any clear policy or procedure for determining our most urgent manpower requirements by skills, age and physical condition, or for allotting those resources to the most urgent tasks. Those who must seriously worry about the administrative problems of the next war would do well to ponder this volume. If ever we should be involved in full-scale mobilization, the greatest single challenge would seem to be that of organizing and administering our manpower resources effectively.

COLUMBIA UNIVERSITY JOHN D. MILLETT

*Future Food and Agriculture Policy: A Program for the Next Ten Years.* By JOHN D. BLACK and MAXINE E. KIEFER. New York, Toronto, London, McGraw-Hill Book Co., 1948.—viii, 348 pp. $3.50.

This book is an expansion of the National Planning Association Pamphlet No. 48 entitled "A Food and Nutrition Program for the Nation" (May 1945) and is a joint undertaking of the authors, the National Planning Association, a special committee of the American

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Farm Economic Association, and the Committee on Food Economics of the Food and Nutrition Board of the National Research Council. The authors make it clear, however, that all of the recommendations made in the book do not have the unanimous approval of these committees.

The authors first analyze the problem: (1) the food required to supply diets which are reasonably adequate nutritionally, (2) the capacity of agriculture to supply these needs, (3) the adjustments which must be made to bring and maintain food supplies and food needs in satisfactory balance, (4) programs for achieving these ends and (5) how the programs can best be executed.

In the case of each of these topics the situation in the United States is discussed in some detail and then that of the other countries is analyzed briefly in light of the discussion of the problems of the United States. It is estimated that before World War II the majority of the people in at least forty per cent of the countries were moving toward an optimum population, with less than sixty per cent approaching the Malthusian limit. The authors state (page 71):

> The true picture of the population balance in the world is, therefore, not that of all the world sinking toward a food-subsistence level, but instead that of one country after another reaching a point at which the arts advance faster than the population, output per worker increases and the country definitely begins to move toward its population optimum. The forty percent mentioned above will become fifty percent in a few decades, then sixty percent and so forth. In all such countries the Hot Springs two-fold program of expanding agricultural production and of increasing purchasing power will accomplish its objective. In all of them, it is entirely reasonable to talk about acquiring more freedom from the want of food. The ways and means of doing this are clear enough.

Progress needs to be made in four lines: (1) improving the arts and technologies not only in agricultural production, but in the distribution and use of farm products not only in agriculture but in all lines of production and use; (2) increasing the productivity of workers by improving their health and education; (3) developing the productive resources of the country; (4) increasing the amount of power and other capital goods used per worker. "Progress toward better living depends upon how much the gains along these four lines exceed the population gains. Checking the rate of population growth will therefore in many countries be a fifth way of making progress toward better living, and more important than all of the first four together" (page 72).

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In the United States, the major problems are: (1) that of keeping production and consumption of food in balance at all times, and (2) that of developing methods of producing and distributing food that will lower costs to consumers. The authors feel that if left to themselves the farmers will do a poor job of adjusting their production to consumption needs. They discuss the efforts made in this direction by the federal government in the last twenty years and propose a new system of controls which they think will work more satisfactorily. They propose a system of total annual quotas for each farm product, to be announced in advance of planting or breeding at the same time as the support prices or loan values. The price or loan guarantee would cover only this volume of production. If, for example, the cotton quota were 12 million bales and the crop was actually 15 million bales the farmer would receive the guaranteed price on 12/15 of his crop. The market would be left free, the government paying the difference between the guaranteed price and the market price actually received by the farmer. The plan is developed in considerable detail.

It is a very stimulating book which should be read by all those who have to cope with these difficult but important problems.

RICHARD BRADFIELD

CORNELL UNIVERSITY

*Family Farm Policy: Proceedings of a Conference on Family Farm Policy.* Edited by JOSEPH ACKERMAN and MARSHALL HARRIS. Chicago, The University of Chicago Press, 1947.—xxii, 518 pp. $4.00.

In February 1946, a six-day conference of farm economists, farm organization leaders, rural sociologists, and others interested in the problem of the family farm in the United States and elsewhere was held at the University of Chicago. The book here reviewed devotes the major part of its space—about three hundred pages—to printing the papers read at the conference. The rest of the book is about equally divided between a general introduction by the editors to the farm-tenure system in the United States and the reports of five committees which met for discussion during the course of the conference.

The title of the book is rather misleading, inasmuch as all the papers read, and all but one of the conference reports, are primarily concerned with land tenure in its various aspects. The exception is the report on suggested action to improve the condition of sharecroppers and farm laborers, especially in the South. Even in this

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report there are tenurial recommendations. As a matter of fact, the conference was described in its own program as one on farm tenure.

The formal papers presented were prepared by authorities on agricultural tenures in Great Britain, Canada, New Zealand, the Netherlands, Denmark, Sweden, France, eastern Germany, Czechoslovakia, Brazil and Puerto Rico, and were designed to bring the American experts abreast of developments abroad, so that they might thereby benefit from the successful and unsuccessful experiences of other countries. The papers on Canada and New Zealand accordingly had a special pertinence, on account of the similarity of the land laws in the British Commonwealth to those in the United States and a history of land exploitation in the two dominions paralleling that of the American frontier. The paper on Sweden deserves praise as a piece of thoughtful scholarship, while those on Czechoslovakia and eastern Germany will probably continue to be of value as a survey of developments in central European tenures between 1919 and 1945. The rest of the papers are well worth reading.

For the student of family-farm policy, the five committee reports constitute the most stimulating part of the book. The reports deal in part with such problems of family-farm policy as community life, facilities for rural education, living standards, soil conservation, mortgages, availability of capital, and federal and state assistance to agriculture, but their emphasis is, as already indicated, on land tenure. It is interesting to note that the old sentimental American idealization of farm ownership is called in question. The consensus of the participants in the conference seems to be that men starting out as farmers nowadays would be better advised to invest their capital in implements and improved livestock than to tie it up in land. Of course, before they could be expected to do so on any worth-while scale, there would have to be a complete overhauling of the mechanism of land tenure in the United States, probably more or less along the lines developed in Great Britain in the last seventy-five years.

The members of the conference propounded no pat solutions for the tenurial problems of our time, but they did make many suggestions which will long prove valuable to sociologists and agricultural economists. Specialists, however, are not the only ones who can profit from the proceedings of the conference. The general reader will find the book as a whole a useful introduction to contemporary thinking in the important field which it covers.

ROBERT LESLIE JONES

MARIETTA COLLEGE

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*The Analysis of Political Behaviour: An Empirical Approach.* By HAROLD D. LASSWELL. New York, Oxford University Press, 1948.—ix, 314 pp. $4.00.

The International Library of Sociology and Social Reconstruction, whose editor was Karl Mannheim, has compiled this volume for those who would like to make a survey of the ideas and approaches used by an American pioneer in the field of *psychopolitics*.

The articles were previously published in various periodicals, except for one, "Self-Observation: Recording the Focus of Attention", which was especially written for this book. They range in time from 1932 to the present and so are dated with respect to their examples but not in their ideas. In fact, it is quite interesting to see how accurate Professor Lasswell was at such an early stage.

Three of the articles were jointly authored: one with Gabriel Almond on "The Participant-Observer: Studies of Administrative Rules in Action"; another with Renzo Sereno on "The Changing Italian Élite"; and the last with Myres S. McDougal on "Legal Education and Public Policy: Professional Training in the Public Interest".

Though the book is divided into three sections—the first titled "How to Integrate Science, Morals and Politics", the second telling "How to Analyse Politics", and the third informing the reader "How to Observe and Record Politics"—yet one gains the impression that these are useful insights into a relatively unexplored field rather than a fully integrated work.

The article with Professor McDougal occupies one third of the book and so deserves special attention. It describes a new approach to legal education which would relegate the "case-book mechanic" to a secondary position. The author of a recent survey was surprised when she found so many lawyers in influential government positions. Yet these men, in all probability, were trained mainly for court techniques and never shown the place of law with respect to government and especially society. The current program at Yale Law School tries to cope with this problem and so has drawn fire from those who do not understand it or its objectives. The latter have conveniently been put into this volume.

The other articles can be described as covering the psychological analysis of human behavior, both individual and collective, and the technique of controlling it. Special reference is made to the needs of democracy. The topics include religion, morals and ideologies. The analysis covers attitudes: how they are shaped in the individual and by his environment. Special studies are included of radio as a

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social instrument and of Hitlerism as a response by the lower middle classes to insecurity.

Professor Lasswell also discusses the skills needed in politics, especially those of the specialists in violence, "the brutalitarians", and their rise to power through the "garrison state". He points up a prediction that the propagandist, one of the new élite, has a much more promising future.

It is in the field of observing and recording politics that the more basic contributions appear. The application of Freudian analysis to politics has overthrown many old values and indicates that new ones are now available. The rational understanding of man's behavior throws an additional burden on the political scientist. Many attempt to avoid it by claiming that this new approach is "gobbledygook" and has no value except to confuse (thereby indicating their own limited capacities). The study of politics will never be of real value until it attempts to understand rationally the irrational aspects of man's behavior.

A much more serious criticism is that which asks that this material be simplified and made available to the public. The section on radio indicates that some of this has already been done; but the problem remains as to how much can and should be disseminated. It is the responsibility of the political scientist to educate himself in this field. It is also his responsibility to realize that this special information can do as much harm as it can do good. The problem in the near future will be how properly to apply the information gathered from Professor Lasswell's analysis of political behavior.

HERBERT MAZA

THE CITY COLLEGE OF NEW YORK

*Ideas Have Consequences.* By RICHARD M. WEAVER. Chicago, The University of Chicago Press, 1948.—v, 190 pp. $2.75.

Richard Weaver's thesis is that "the defeat of logical realism in the great medieval debate was the crucial event in the history of Western culture. From this flowed those acts which issue now in the decadence of modern culture." This "evil decision" has become "the efficient and final cause of other evil decisions" which launched us into our current pickle. The constituents of our decadence, according to Mr. Weaver, are contemporary art, literature, music, philosophy, economics and science; the press, theater, cinema and radio; industrialism, capitalism, and, with certain reservations, communism and fascism; the middle class and the strike; empiricism, positivism and Protestantism; democracy, equality and freedom; liberalism,

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libertarianism, socialism, barbarism, ignorance and sin—but we must stop listing without hoping to be exhaustive. It will be easier to indicate those things which enjoy—if that is the correct word—Mr. Weaver's approval: Platonism, aristocracy, hierarchy, the ante-bellum South, the farmer, conservatism, corporatism, and Japanese emperor worship.

Now to pass on the validity of Mr. Weaver's thesis on the basis of his attempt to prove it would be all too patently a cheap dialectical trick, rather like evaluating contemporary standards of decency out of the lucubrations of the Hearst press. It is a thesis that has been maintained by men whose intellectual pretensions and equipment are, to put it mildly, superior to those of Mr. Weaver, and it is against the work of such men that any serious attack on the thesis would have to be directed. Yet *Ideas Have Consequences* is a work well worth discussing, since it perfectly illustrates an error all too general in those among us of various schools of thought who assume the posture and paraphernalia of deep thinkers. The error consists in the assumption that it is possible to sustain arguments essentially historical without going through the grubby ordeal of learning some history.

Our author has the merit—such as it is—of knowing what his intellectual commitments are. He promises to offer a "scientific analysis" to show that the course of history in the past six hundred years has flowed from medieval nominalism to our present dilemma "with perfect logic . . . in the same way that conclusions come from premises." The timid and the tentative may gasp at the boldness of one who embraces the past six centuries of Western culture as his theme; and historians may be surprised to learn that large sectors of what they believed to be the past are mere illusion. Students of the development of banking have foolishly been documenting the thesis that every great financial house up to the seventeenth century was ultimately ruined by the repudiation of royal debts. But now we know that it was "popular governments" after the French Revolution that were "particularly prone to dishonor their obligations". We also know now that "the historical soldier" recognized "distinctions between babe and adult, between the sexes, between combatant and noncombatant . . . which lay at the core of chivalry." So vanishes from the pages of history the raping, looting, burning and massacres of the followers of those chivalric paragons the Black Prince and his father; so vanishes indeed the whole Hundred Years' War. In the old hierarchical society based on fraternity "where the highest and the lowest see their endeavors contributing to the common end and they are in harmony", the communal revolts, the Jacquerie, the

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Peasants' War, whole centuries of what was once Flemish history vanish beneath a heavy coat of what from a distance looks like hogwash. But here we must stop. Each page of Mr. Weaver's "scientific analysis" is studded with gems no less precious than those sampled above.

Mr. Weaver might justly claim to be a cosponsor of the newest kind of new history. It is history that follows with perfect logic from the author's premises, and drops him just where he wants to be dropped—at his conclusion. In such a useful instrument we may forgive the total lack of any temporal reference. History thus emancipated, free of the leaden bonds of time, can float above the flux, innocent of any resemblance to any event past or present.

Occasionally Mr. Weaver's inventive powers fail him, and he slips into something remotely resembling history as it is generally understood. But never very far; and these lapses are themselves revealing. They involve the comparison of the thirteenth century with the present, church society with bourgeois society. To make the comparison come out right Weaver compares the highest profession of ideals in the thirteenth century with the worst of modern achievement. The outcome is a foregone conclusion: Mr. Straphanger will never look good alongside St. Thomas Aquinas; but to make assurances doubly sure the author selects a peculiar, repulsive modern type, a sort of Muggsy Straphanger with such proclivities toward sloth, greed, lust and over-all degradation as I find among none of my distinctly bourgeois neighbors.

The very publication of Mr. Weaver's book appears to indicate that those who in our day arrogate to themselves the mantle of Thomas Aquinas are willing to place the stamp of their approval on anyone who arrives at their conclusions, no matter how dubious or downright silly the means and methods by which he comes to them. The specialists on the other hand, obstinately faithful to the liberal tradition which is the breath of their life, are eternally preoccupied with means and methods. For example, the historians in the past hundred years have on the whole tried hard to bring some tidiness and order into the immense area that is theirs to patrol. Daily they are disheartened by the mass of trash to be cleaned up, and they are painfully aware that much of the disorder is of their own making, that they are terribly inadequate to the task they have set themselves. One thing, however, Mr. Weaver needs to learn from them: that only close, careful, painstaking labor of the most methodical kind achieves any permanent results.

J. H. HEXTER

QUEENS COLLEGE

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*Economic Security and Individual Freedom: Can We Have Both?* By ALBERT LAUTERBACH. Ithaca, Cornell University Press, 1948.—v, 178 pp. $2.50.

The internal group conflicts and the demoralizing impact of recurrent wars and depressions that have marked the precarious course of modern civilization in recent decades render most urgent a solution of the persistent problem of striking an effective adjustment between freedom and order in terms of distributive justice and social utility.

Professor Albert Lauterbach, formerly of Vienna, and now at Sarah Lawrence College, has offered his contribution to the discussion of this crucial problem, in what might be termed another of the polemical series that followed the publication of Professor Friedrich Hayek's best seller, *The Road to Serfdom*. In a very limited space, Professor Lauterbach has apparently attempted the almost impossible task of handling a very difficult and complex problem by combining a popular style with a respectable scientific foundation. As it usually happens, in such endeavors, considerable success attends the first purpose at the expense of the second. Within the confines of inadequate space for the treatment of such a significant theme, he presents his material in an interesting and persuasive fashion. If the purpose of his book is to counteract the Hayekian polemics, it might be considered a success from this viewpoint and of an immediate value comparable to Barbara Wooton's *Freedom under Planning*.

The alternatives of choice, however, in this presentation are apparently limited to the dichotomy of capitalism and socialism, freedom being regarded as attainable under either system, depending upon the "concrete historical pattern" and the faith and vigilance of a freedom-loving people. In his rather oversimplified introduction, the author presents the issue dramatically; it may be questioned whether he presents it realistically in terms of relative degrees and the interactive forces that actually operate in the course of institutional evolution.

In his second chapter, Lauterbach disposes of the "Laissez-Faire Solution" by pointing out (p. 28) the "practical impediments to an effective automatism of national markets" and explaining these impediments mainly in terms of the increasing rigidities of the industrial system. He assembles some telling points, fairly well established by scientific investigation in other quarters, to indicate the bankruptcy of laissez faire; but this exercise is considerably like kicking around a corpse, for economic orthodoxy of the traditional brand perished, for all practical purposes, in the economic disturbances of

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the last few decades; and the Keynesian theories, if they do not resurrect it, will very well serve as its funeral oration.

After showing that laissez faire policy is hopelessly utopian, Professor Lauterbach, in his third chapter, characterizes totalitarian policy as devastating. In several pages of clearly written argument and exposition, he shows that the roots of totalitarian social control in Eastern and Central Europe are quite different from the traditional development of social control in the Western democracies, thus refuting one of the main contentions of Friedrich Hayek; that is, that increased social controls over economic life in England and the United States will result in the same totalitarian pattern that emerged in Germany or Russia.

The fourth chapter is Lauterbach's best from the standpoint of an objectively scientific exposition of the problem he has tackled. Here he becomes more the scholar than the advocate, and furnishes ample ground for the hope that his future work in this field will be of a more solid and enduring nature. In this part of the book, which is really the core, he gives a clear-cut analysis of such concepts as free enterprise, economic planning, and socialism which are so often bandied about, even by some social scientists, without consideration of the various shades of meaning attached to the terms.

The book will be found informative and interesting for the general reader who, having read Hayek's *Road to Serfdom,* remains sufficiently broad-minded and inquisitive to investigate the other side of the argument. Professor Lauterbach has contributed one of the better booklets of economic essays in the current series of polemics, but, most probably, many of his colleagues in the profession share my hope that after the market demand for this type of writing is satiated he will turn to the scientific research and the laborious process of empirical investigation and thorough analysis which will provide the only sound foundation for an effective system of democratic economic planning in which security will be reconciled with liberty in a nice institutional balance of distributive justice.

FLORIDA STATE UNIVERSITY WALTER G. O'DONNELL

*The American Economy: Its Problems and Prospects.* By SUMNER H. SLICHTER. New York, Alfred A. Knopf, 1948.—ix, 214, ix pp. $2.75.

As Lamont University Professor at Harvard, past President of the American Economic Association, chairman of the research advisory board of the Committee for Economic Development, and prolific writer on matters of economic policy, Professor Slichter commands

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a wide audience. *The American Economy* is timely and will be widely read and discussed. It has the merits of much of Professor Slichter's popular writing, but it does not deserve the attention it will receive. Within relatively few pages Professor Slichter manages to touch upon most of the pressing problems of the day. He is never hesitant to suggest positive solutions. His viewpoint is optimistic and moderate in character. Some suggestions for reform run counter to prevailing conservative opinion but on the whole there is no disposition to suggest reforms that would upset the *status quo*.

Within such a brief space Professor Slichter does not attempt a precise analysis of the complex operation of the economy. In many cases the basis for estimation of future prospects is made by the projection of past trends. Most of the specific reforms suggested have to be taken on faith. In no event can he be accused of following any particular school of thought. On several occasions the Keynesian analysis of employment and income is subject to attack. Although there are many inadequacies in the Keynesian doctrine, the case against it made by Professor Slichter is hardly convincing.

Professor Slichter is much impressed by the past achievements of the American economy. He is confident that with relatively moderate reforms of economic institutions and industrial relations the future progress of the nation may be assured within the present political and economic framework.

In the part of this little book devoted to his examination of the basic characteristics of the American economy several controversial statements appear. Much is made of the fact that the "American economy is a laboristic economy, or at least is rapidly becoming one. By this . . . [is meant] that employees are the most influential group in the community and that the economy is run in their interest more than in the interest of any other group." In view of the emphasis on this point it is disappointing to find that no convincing evidence is marshaled in support of the position taken. The power of labor has increased in recent years, but the general view of economists and political scientists is certainly far from that of Professor Slichter.

Another controversial assertion is Professor Slichter's statement that "The American economy is highly competitive" and that "'Monopolistic competition' . . . is a misleading term, because it suggests that competition is not so vigorous as it should be. As a matter of fact, 'monopolistic' competition is superior to so-called 'pure' competition, because it is broader and stimulates improvements in products as well as improvements in processes." In addition he believes that evidence of vigorous competition is found in the fact that, although iron and steel, petroleum refining, meat packing, tin-can production, and

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radio manufacturing are all characterized by concentration of over one half of the output in the hands of not more than five producers, there are in each industry many smaller competing firms. A bolder denial of the problems created by the dominance of an industry by giant corporations cannot be imagined.

A final criticism must be made of his treatment of money and credit policy. This is highly confused and, if understood correctly, suggests that he favors a relationship between short-term bank credit and monetary supply that would tend to support an inflationary movement of prices. There is also the question of his position with regard to desirable price policy. Rejecting the possibility of a downward trend in prices, he concludes that an upward trend is in prospect. It is not clear whether he favors this trend or not.

Professor Slichter's treatment of industrial relations and international economic policy is more conventional. The level of analysis, however, is rather superficial. Little in the way of positive operating suggestions is offered. Perhaps widest attention will be given to his belief that "*Eventually* the community will probably attempt to keep prices from rising by adopting and enforcing a national wage policy."

Few readers will change their position as the result of reading this book, but it is hoped that they will be provoked to think more carefully about similar problems and make a more successful effort to suggest changes in the political and economic institutions to meet our current and future problems.

PAUL J. STRAYER

PRINCETON UNIVERSITY

*The Roosevelt Court: A Study in Judicial Politics and Values, 1937-1947.* By C. HERMAN PRITCHETT. New York, The Macmillan Company, 1948.—xvi, 314 pp. $5.00.

This is an excellent book. It deals with the voting behavior of the Roosevelt Court, the over-all pattern of agreement and disagreement, and the particular judicial alignments on five of the vital issues on which constitutional law has been largely rewritten in the past decade. Specific attention is given to the areas of economic regulatory legislation, civil liberties, criminal procedural safeguards, judicial review of administrative procedures and findings, and problems of labor. The underlying approach is through a statistical presentation (effectively portrayed in a series of tables and charts) based on the voting record of individual justices in nonunanimous decisions. Comparisons are thus possible in terms of the relationship of individuals or blocs to each other and to the position of the Court as a whole. The study

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thus provides a wealth of raw material for further analyses, and will prove indispensable to those making efforts to assess the rôle and impact of particular justices on the course of constitutional interpretation. To the many already familiar with Professor Pritchett's previous work in this field, the careful and meticulous presentation of the factual data will come as no surprise.

The volume, however, goes substantially beyond the mere presentation of statistical information. Not only does the author show a complete awareness of the limitations of the statistical approach in a field such as constitutional law, but he is generally successful in supplying the analyses and value-judgments without which such an approach remains dry, lifeless, and sometimes misleading. Thus, in the course of this volume, he actually provides a concise and stimulating account of the major trends in constitutional interpretation over the past ten years, and concludes with a brief and suggestive discussion of the rôle of a liberal court in a constitutional democracy.

Much could be said about the facts, insights and judgments which fill the book. Merciless considerations of space suggest a brief indication of the conclusions which, in the reviewer's opinion, emerge most strikingly from the study.

1. The book provides the definitive *coup de grâce* to what has been called the mechanical theory of jurisprudence, at least in so far as it purports to describe actual judicial behavior. No one can examine the factual evidence here presented and still believe that judges act as mere mouthpieces of the law, functioning only to discover pre-existing rules and to apply them to specific controversies. Such a theory, despite its convincing discrediting at the hands of students of judicial review over recent decades, has exhibited a surprising tenacity—even in the field of constitutional law, where it has always been least applicable in fact. While disenchantment with this theory is not new, the present volume provides statistically demonstrable evidence that underlying attitudes of individual justices vitally condition what the Court will do. The patterns of preferences here depicted are too clear, too consistent, and too conclusively controlling over a wide variety of cases involving a multiplicity of differing details to allow of any other conclusion. The stark clarity of the voting blocs in the pre-Roosevelt Court and, after a period of transition, the re-forming of such blocs in the present Court are made strikingly apparent.
2. Confusion and disagreement exist in the new Court, but they are on a new and different level. The issues which divided the

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old Court are now taken fairly for granted; the new splits are on the degree to which views formerly rejected by the Court shall now be pushed in the process of reinterpretation.

3. The new Court's disregard for precedent, which is statistically impressive, turns out on closer examination to be less sweeping than many commentators would lead one to suppose. In several cases the precedents overturned were themselves the result of earlier disregard of precedents. And the Court is developing a renewed respect for precedents—its own precedents. In any event, the analysis suggests that doing in ten years what should have been done in the preceding fifty (namely, treating the fundamental law as a *constitution* adaptable to the various crises in human affairs) has involved little more than the minimum essential rate of breakage.
4. In many ways, the liberal Court reflects the dilemmas of liberal political philosophy in the United States. The author stresses the absence of a consistent liberal political theory, and finds in this the key to many of the inconsistencies among the liberal justices on the Court. While the present reviewer cannot quite accept the conclusions as to the aimlessness and rootlessness of American liberalism, he cannot deny the ambivalence of the liberal heritage on many points, and especially on civil liberties. As the author rightly says, "It is somewhat ironic to hear Frankfurter's refusal to accept [the] claim for the primacy of the Bill of Rights, the most truly Jeffersonian part of the Constitution, defended as demonstrating 'the old Jeffersonian confidence in the people.'" (pp. 284-85)
5. Concerning the rôle of individual justices on the present Court, the voting patterns reveal, among other things, that (1) the staunchest supporters of civil liberties and criminal procedural safeguards are Murphy and Rutledge, with Burton, Frankfurter and Vinson least receptive to such claims; (2) on economic regulation, those most willing to go along with state and federal action are Black and Douglas (closely followed by Murphy), with Burton, Jackson and Vinson on the other side most often when there is a split; (3) on labor cases, Black, Douglas, Murphy and Rutledge are most inclined to find constitutional sanction for labor's cause, with Vinson and Burton least inclined; and (4) on supporting the rôle of administrative justice, Black and Murphy are prepared to go further than the rest of the Court, although the split here is less wide in general than on some of the other issues. Most confusing and least susceptible of ready classification has been the position of Frankfurter, while Reed

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and Jackson have been rather in the middle with proclivities toward the right.

To the interesting question as to which justice or group of justices in the present Court best represents the liberal judicial tradition of Holmes and Brandeis, the author gives no unequivocal answer. Pointing out that this tradition was itself a divided one, the author concludes, "A policy of judicial activism sponsored by a liberal court is no more consistent with the democratic process than a like conservative policy, unless the negation of legislative decisions is limited to countering assaults on authentic principles of liberty and dignity which must be maintained as essential conditions of a free society" (p. 286). With this the present reviewer happens to agree profoundly, as he does also with the author's conclusion that the Roosevelt Court is in the process of reasonably approximating the standards necessary to give vitality to this principle.

VINCENT M. BARNETT, JR.

WILLIAMS COLLEGE

*The Social Politics of FEPC: A Study in Reform Pressure Movements.* By LOUIS COLERIDGE KESSELMAN. Chapel Hill, The University of North Carolina Press, 1948.—xvii, 253 pp. $3.50.

The title of this book is too pretentious for its actual subject matter, which is the study of a single reform pressure movement called the National Council for a Permanent FEPC. Of course the book contains many generalizations concerning methods employed by practically all pressure groups, but these are frequently merely quotations or summaries substantiated by references to the writings of others and are not sufficiently detailed or important to warrant the all-inclusiveness of the subtitle. There is also the possible inference that the FEPC of the title refers to the federal or one of the state Fair Employment Practice Committees which actually existed, but this is not the case.

The study is divided into three parts. The first, "Discrimination in Employment", tells something of the origins of the Council in an attempt to revitalize the ailing Committee on Fair Employment Practice created in 1941 by executive order in an endeavor to mitigate the discrimination so prevalent in employment policies of the government and most defense industries; but it is mostly concerned with the Council's work lobbying for legislative creation of a somewhat similar committee to be endowed with sufficient power to enforce its decisions in the courts. The Council's plan of organization, its personnel, coöperating groups, policies, finances, and sundry prob-

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lems are discussed and weighed. Dr. Kesselman, who is Assistant Professor of Political Science at the University of Louisville, believes that the inadequate leadership of working chairman A. Philip Randolph of the Brotherhood of Sleeping Car Porters and the inexperience of many staff members were the basic difficulties. Insufficiency of funds was chronic, but this was in large measure owing to lack of confidence in headquarters and to antagonisms between various individuals and organizations interested in the principles of the legislation.

Part two, "The Factor of Social Cohesion", gives thumbnail sketches of various Negro, Jewish, Spanish-speaking, civic, religious and labor groups which either should have coöperated or actually did so. It contains the author's judgment as to why the support was as little (the usual case) or as great as it was. Some attention is given to the communist attempt to muscle in on the organization, and to the opposition, which is effectively characterized as "powerful but piecemeal" (p. 166).

Part three, "The Factor of Communication", is concerned with attempts to persuade congressmen to support the proposed legislation, and with the limited appeals it was possible to make to the public—limited mainly because of the inhospitality of most newspapers and radio networks. This raises the old and provocative question of "whether to impose controls upon the press and radio to secure a fair hearing for causes which may be unpopular with the operators of media of communication . . . if the status quo is not to crystallize and afford minorities no opportunity to become majorities, contrary to democratic theory" (p. 226).

Dr. Kesselman had access to the files of the National Council for a Permanent FEPC and has documented his conclusions concerning "the first, and unsuccessful, phase"—to July 1946—of its fight (p. 83) in an apparently workmanlike manner. It is disturbing, however, to find that he is willing to discuss, even briefly (pp. 226-227), the accomplishments of the liquidated FEPC without looking at its *Final Report*, dated 1947. As his book contains references to the elections of 1948 the report could have been obtained.

This study will be of interest mainly to specialists in the various subjects on which it touches. Perhaps its value to them would have been enhanced had it gone into greater detail, particularly in parts two and three. It should also serve as a guidepost to possible pitfalls for future reform pressure movements, and particularly for its reorganized successor.

FRANCES JAY

NEW YORK CITY

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# BOOK NOTES

*The Management of British Foreign Policy before the First World War Especially during the Period 1880-1914*, by Dr. F. Gosses (translated by Miss E. C. Van der Gaaf) (Leiden, A. W. Sijthoff's Uitgeversmaatschappij N. V., 1948; 172 pp. Fl. 15; bound Fl. 17.50), is the first of a pair of works intended, according to its preface, as an aid to the study of the *British Documents on the Origins of the War* and other such publications. Quite apart from the fact that it comes rather late in the day for the utilitarian purpose described, the monograph has the merit of gathering together a good deal of information on the machinery employed in the conduct of foreign policy during the years 1880 to 1914. Of its five chapters, the first deals in general terms with the character of the British governing class and the second emphasizes the theme that British government in the period was government by amateurs—mainly aristocratic amateurs—rather than experts. It must be said that neither chapter adds appreciably to analyses found in Low and Bagehot, Lowell and Laski, upon whom, indeed, Dr. Gosses depends in great measure for his materials. A third chapter, on the civil service, continues the general discussion, emphasizing the importance of the reform of 1870 and outlining the make-up of a typical government department. The core of the work is in the last two chapters, which take up in turn the Foreign Secretary and the Parliamentary Under Secretary for Foreign Affairs. The relations of the former with Parliament, the Crown, the Cabinet, and the Prime Minister are outlined and the argument is developed that in the Foreign Office, in contrast to other government departments, the high-born minister tended to remain at his post long enough to become something of an expert in his duties. Apparently because his study refers continually to the various personalities connected with foreign affairs, Dr. Gosses has included a series of "biographical" footnotes, indicating for the most part the governmental positions held by these men. The reviewer inclines to the belief that the space employed for these entries from *Who's Who* and *Who Was Who* might have been used to better advantage. The entries seem accurate, though it should perhaps be noted, in relation to the sketch of Arthur Ponsonby (p. 84), that the Union of Democratic Control was founded



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in 1914 and not "after the First World War." In any event, while this study contributes no particularly new or revealing insights, it should be of some value as an introduction to other materials on the conduct of British foreign policy. That value, unfortunately, will be limited by the handicap of an unimaginative and mechanical translation from the Dutch.—HENRY R. WINKLER, Rutgers University.

The international research program of the Institute of Pacific Relations for some years has been an indispensable source of publications of outstanding merit and lasting value. Students of the Far East accordingly will welcome the announcement of a new series of studies on the reconstruction and reform of defeated Japan. *The Allied Occupation of Japan,* published under the auspices of the American Institute of Pacific Relations, Inc. (Stanford, Stanford University Press, London, Oxford University Press, 1948; xiv, 155 pp. $3.00), by Edwin M. Martin, former Chief of Occupied Area Economic Affairs in the Department of State, is an appropriate first publication in this series, furnishing a comprehensive commentary on the occupation from which more detailed analysis of selected aspects of the program in Japan can proceed. Mr. Martin herein surveys six principal features of the occupation: Formulation and Execution of Allied Occupation Policy, Liquidating the War (demobilization, reparations, etc.), Territorial Changes, Permanent Disarmament and Demilitarization, Democratization and Pacification, and Housekeeping Problems (the tasks involved in rebuilding Japan's economy). Each topic commences with the relevant passages from the Potsdam Declaration and from the basic United States initial post-surrender directive to General MacArthur. In the discussions which follow, emphasis is placed upon the purposes of occupation policies and upon the underlying domestic and foreign conditions under which these policies operate, as well as upon the means by which they are applied. The author weighs the advantages and disadvantages of alternative approaches and comments upon the obstacles to be overcome. He points to problems still requiring attention, some of which must await a treaty settlement. He describes the reasons underlying the Supreme Commander's decision to get reforms on the books promptly even though this must be done through the channel of an essentially reactionary and unsympathetic government. He carefully avoids an evaluation of the achievements of the occupation, pointing out that fundamental emotional drives and patterns of thought of the individual Japanese and the structure and working processes of social institutions must undergo revolutionary change if the goals of the

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occupation are to be accomplished. Unfortunately the book was completed before the end of 1947, too soon to take account of the shift of American policy during the last year and a half away from the former emphasis upon reform toward the present emphasis upon economic stabilization and reconstruction. In the treatment of economic matters, however, Mr. Martin does discuss certain of the basic conditions which have helped to produce this development. An appendix provides three documents relating to the occupation, the Far Eastern Commission's Basic Post-Surrender Policy for Japan, the Agreement of Foreign Ministers at Moscow on Establishing the Far Eastern Commission and the Allied Council for Japan, and the Basic Initial Post-Surrender Directive to the Supreme Commander for the Allied Powers for the Occupation and Control of Japan.—JOHN W. MASLAND, Dartmouth College.

Under any régime and circumstances the Mediterranean is bound to rate top priority in the considerations of Italian policy. Italy as a Power has not been able to exert a commanding influence in that sea, but her interest has manifested itself in a considerable literature on the subject, much of it of high order. *Costantinopoli e gli Stretti nella politica russa ed europea: Dal trattato di Qüciük Rainargi* [*sic*] *alla convenzione di Montreux* by Ettore Anchieri (Milan, Giuffrè, 1948; 268 pp. L. 660), a monograph in diplomatic history, covers somewhat the same ground as Shotwell and Deák's *Turkey at the Straits*, but does it in more detailed fashion. The problem of the Straits grew out of Turkish weakness. So long as the Ottoman Empire commanded sufficient strength in its own right, Turkish rule and decisions could obviously be enforced in disregard of the wishes and interests of Russia or any other Power. But geographic considerations alone, even if there had been no others, made it inevitable that Russia should be vitally concerned with the conditions of passage through the Straits. Hers, the only positive interest in directly controlling the Straits, was met by the negative interest of the other European Powers in thwarting her attempts. Russian policy has been extremely consistent in the pursuit of its fundamental aim, but the implementation of it has given rise to divergent approaches in Russia herself, resulting in abrupt shifts of tactics and seeming inconsistencies. From the time of the treaty of Kuchuk Kainarji, which gave Russia for the first time the right to meddle in the internal affairs of the declining Ottoman Empire, Russian tactics have oscillated all the way between the extremes of annexation in connection with a partition of that empire and the preservation of its integrity under some more

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or less veiled Russian protectorate. The steadiness of the aim has not been matched by the quality of Russian diplomacy. Russia no more understood Britain than she did Bismarck when she confronted him with an impossible dilemma by her espousal of Balkan nationalism whose eventual success could not help constitute a threat to Germany's ally, the Habsburg Monarchy. Whether warranted or not, Russia's usual reaction has been one of disgruntled suspicion. Exception may be taken to the degree of emphasis placed on certain developments—the British denunciation of the First World War Near Eastern agreements, or the significance for Italy of her absence from the Montreux meeting in 1936, for example—and the book could also have been more carefully proofread. These reservations do little to impair the value of a sound analysis of an issue which remains as troublesome as it ever was during the nineteenth century.—RENÉ ALBRECHT-CARRIÉ, Barnard College.

Professor G. O. Sayles, now of the Queen's University of Belfast, is best known for his illuminating studies, most of them written in collaboration with his friend and fellow-medievalist H. G. Richardson, of early English parliaments and their records. In the present volume, *The Medieval Foundations of England* (London, Methuen & Co., 1948; xi, 480 pp. 18*s*.), which is intended as something intermediate between a monograph and a textbook, he is concerned with medieval English history in general, in its cultural, ecclesiastical, economic and social—as well as in its political, constitutional and administrative—aspects. In the reading-lists appended to the several chapters the accent is strongly on writings of the twentieth century, and few works of earlier publication are included. This is not because the author is unacquainted with or unappreciative of the older masters of medieval English history. On the contrary, he pays his respects at the outset to the great historical scholars of the nineteenth century whose "gigantic labours" laid "the indispensable groundwork of our knowledge." It is, however, to the writings of later historians that guidance, he believes, is especially needed. In the text he presents a conspectus of recent historical opinion on the many subjects of which he treats, and sometimes he expresses personal views at variance with those generally accepted. Professor Sayles is constantly conscious of the need of escaping from bondage to present-day preconceptions. Speaking of Victorian interpretations of Anglo-Saxon history, he refers to the "perverse historical doctrine that the past could only be understood in the light of the present", and he begins

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his final and probably most valuable chapter, in which he discusses medieval English parliaments, with a salutary reminder of the distorting effects of modern democratic and liberal ideas upon nineteenth-century conceptions of the nature of early parliaments. He has tried conscientiously and praiseworthily to avoid anachronisms and to refrain from the kind of judgment, based on hindsight, that has so often tempted historians and misled their readers. A distinctive and useful feature of the work is a careful description of the historical sources, to which three chapters are devoted. This is evidently a book intended for serious study, but even so the student's task could be considerably lightened without sacrifice of scholarly values. Many of the paragraphs are much too long and too tightly packed; and it seems of little avail to describe and comment upon the conquests and settlements of the Anglo-Saxons without maps.—R. L. SCHUYLER, Columbia University.

In *Seeds of Liberty* (New York, Alfred A. Knopf, Inc., 1948; xix, 587, xxxi pp. $6.50), Professor Max Savelle of the University of Washington has put together a sort of cultural history of colonial America in 587 pages. The book bears a promising subtitle: *The Genesis of the American Mind.* In it Professor Savelle attempts to describe colonial religion, science, philosophy, economics, social relationships, politics, literature, art, music, and a variety of other matters which presumably influenced the nascent "American mind". The chapter devoted to music, the author explains, was written by Professor Cyclone Covey of Reed College. The reader of Professor Savelle's book must applaud his courage in thus taking all knowledge for his province. Mr. H. L. Mencken in the preface to *Heathen Days* attributes his own contentment of spirit "to a kind of caginess that has dissuaded me . . . from attempting enterprises clearly beyond my power." Professor Savelle has allowed no such bourgeois prudence to influence him, and he has succeeded in accumulating a considerable book of information and observations about colonial America which a judicious reader will find instructive. As Professor Savelle himself says encouragingly of another historian (p. 16): "You do not have to read all of it: every chapter stands alone." It would be unfair and unkind to appraise Professor Savelle's book by the standards applied to books written for specialists. He himself announces in his preface that "This book was written primarily for the average American citizen. . . . I hope, of course, that scholars may not disapprove of this enterprise" (p. ix). Although scholars will find nothing new,

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in either interpretation or fact, in Professor Savelle's book, they may applaud his ambition to bring together information which should be of interest to intelligent Americans. For the benefit of the general reader, the author has provided a few bibliographical notes at the end of chapters but these seem to reflect an interest in books read during his student days, because rarely does he show any concern with recent scholarship. The purchaser of this book will have reason to bless the publisher, for the lack of originality in the matter is, in a measure, offset by the quality of the printing. The illustrations scattered here and there through the book also help to lighten the text.—LOUIS B. WRIGHT, Folger Shakespeare Library, Washington, D. C.

Not only will Georgians be pleased with *A Constitutional History of Georgia, 1732-1945* (Athens, The University of Georgia Press, 1948; xi, 521 pp. $4.50) by Albert Berry Saye, but students of state constitutional history will welcome this evidence of increasing interest in the field. Professor Saye has presented a scholarly account of Georgia's constitutional development from 1732 to 1945, moving adroitly through tedious technical details and achieving a fine balance between a work for the specialist and one for the layman. His particular contribution lies in the penetrating analysis of three themes: first, Georgia's early history—her part in the extensive promotional schemes of the era of mercantilism, and her connection with the Enlightenment and with the Revolution; second, her socio-economic rather than political nationalism after 1789; and third, the features noteworthy in each of her eight state constitutions. How Georgia, before the Revolution, failed in her experiment in philanthropy but succeeded as a buffer colony is told in full; and equal stress is laid on the developments of the period between the Revolution and the Constitution of 1798. The importance of this long-lasting document is well brought out. Less space is given to the Civil War and Reconstruction constitutions and more to that which remained in effect, with extensive amendments, from 1877 to 1945. As a result of his researches in England, the author is able to throw new light on certain aspects of the colonial era. Here the personalities stand out well against the larger scene. In other chapters the character interest is slight. One could wish to see more of the men at the conventions and feel the push of those at home. In chapter xiv the allocation of a paragraph to each governor is an abrupt change. The best account to date of the upcountry influence appears here; the Independents and the Populists are well treated. Much still remains to

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be said of the motives for some changes and conversely the "why not" of those not yet made. Particularly apparent is the failure of the Commission of 1945 to shorten the constitution; the document they presented was referred to by the press of the time as "streamlined", but the adjective is far from apt. Professor Saye says it takes no sage to see that further changes will be needed. A final summary pointing up his findings and hinting at next steps would be helpful. As far as is possible with the changing materials of constitutional history, this book may be called definitive.—ETHEL KIME WARE, Hunter College.

*The Maryland Germans: A History* (Princeton, Princeton University Press, 1948; xii, 476 pp. $5.00) by Dieter Cunz is an interesting and useful but disappointingly incomplete book. The author, Associate Professor of German at the University of Maryland, refrains from the special pleading which has so often marred writings on local immigrant groups and their "contributions". While avoiding the usually endless catalogue of prominent names, he nevertheless devotes much space to individual Germans, particularly ministers and editors: he is a better storyteller than sociologist. In covering the long span of three centuries, Dr. Cunz describes the German frontier farmers of colonial Maryland and the aristocracy of Baltimore merchants, the Germans' rôle in the Revolution, and the development of their communities under the impact of nineteenth-century immigration. He discusses the rise and fall of the hyphenated German-American and his exultation over the creation of the Bismarckian Reich, and, finally, the twentieth-century decline of Germanism in Maryland, when loyalties were put to the test of two world wars. A sympathetic description of recent Amish immigrants from Pennsylvania is a timely inclusion, now that Maryland has enacted a school law similar to that which led the Amish to cross the border. As might be expected, churches, charities and schools are fully treated. So are German businesses, *Vereine*, and newspapers expressing individual or group attitudes. Religious and social cleavages are emphasized, as are the effects of regional differences upon the assimilation of the Germans; but class conflicts are nowhere discussed at length. Artisans receive little space, and the German labor movement is barely mentioned. The book's basic weakness, however, is that it contains so little statistical information. Dr. Cunz makes no attempt to analyze census data accumulated since 1850. He presents no figures (as did Oscar Handlin in *Boston's Immigrants*) which would reveal, for example,

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the numbers of Germans in various occupations, or the incidence of disease, pauperism and crime; nor can we rely upon his assertion that in the three decades before the Civil War Baltimore was "the favorite port for Europeans and especially for Germans" (p. 202). At least six times as many Germans landed at New York in that period. Despite its deficiency, however, and until we have an analytical work based on immigration records, census schedules, and local public documents, Dr. Cunz's book remains the best study of the Maryland Germans.—ROBERT ERNST, Adelphi College.

A long, happy and prosperous trip has been ex-Governor Edge's journey through the busy years since his boyhood. Spanning the days from a centennial Philadelphia to the many complexities of gubernatorial administration during the Second World War, *A Jerseyman's Journal* (Princeton, Princeton University Press, 1948; xi, 349 pp. $5.00) by Walter Evans Edge becomes a personalized compendium of many of the major issues and political currents in American history during the first half of the twentieth century. As a newspaper man, advertising executive, state legislator, governor of New Jersey (his two terms coincided with both great wars), United States Senator and ambassador to France, Mr. Edge acquainted himself with many of the best-known personalities of our time. The pages of his autobiography are abundant in anecdotes, most of them good-humored and amusing. Teaching Woodrow Wilson the turkey trot, chiding his colleagues in the Senate who drank wet and voted dry, or even taking his mother-in-law along on his honeymoon, Mr. Edge has managed to enjoy life in good measure. His easy acceptance of the party organization and his strongly "practical" approach to politics are testimonial to the enduring aspects of the political machine, whether it be Democratic or Republican. For all his battle against "Hagueism", Mr. Edge always retained his distaste for reformers. George L. Record, Everett Colby, and the "New Idea" reform program receive scant attention from the author, although he confirms the conviction of those students of the New Jersey scene, like Ransom Noble, who maintain that the "New Idea" Republicans should share credit for the so-called Wilsonian reforms. With candour Mr. Edge defends the patronage system and criticizes the high cost of the direct primary. He was ready to support, even to initiate, certain types of social legislation, but he abjured the paternalistic features of the New Deal. Above all, Mr. Edge is proud of having been an efficient, "business-like" public administrator. It is no mere coincidence that his

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name should be associated with bills establishing both the New Jersey and the federal budgetary systems. It was as ambassador to France (1929-1933) that Mr. Edge most transcended the limited horizons of the party man. He returned to this country after his service in Paris firmly believing in the need for Western unity, and became an early proponent of support for the democracies. Distressed by what he had observed abroad and aware of the tragic consequences of the bickerings among the Western nations, he could speak unhesitatingly in behalf of President Roosevelt's pleas for Lend-Lease when the new conflict arose. Mr. Edge's second term as governor (1944-1947) ruffles the usual genial equanimity of this autobiography. The author's feelings—often quite partisan—about the defeat of his proposed state constitution, the impeachment of his attorney-general, and criticism leveled against his administration are most apparent in these final chapters. One gains the impression that, after so tempestuous a term of office, Governor Edge sighed with relief to turn his duties over to his friend and Republican successor, Alfred E. Driscoll, in January 1947.—KENNETH C. MACKAY, Madison, N. J.

Benjamin Gitlow held virtually every important position in the Communist party of the United States until in 1929 Josef Stalin, engaged in a world-wide struggle for control of the Comintern apparatus, removed him from leadership. Gitlow was one of the organizers of American communism, general secretary of the party, twice its candidate for the vice presidency, an honorary member of the Moscow Soviet, a member of the executive committee (and of its Praesidium) of the Communist International. In 1919 he was sentenced to five to ten years at hard labor, of which he served three. (His name is preserved, too, in constitutional law, for it was in *Gitlow* v. *New York* that the United States Supreme Court, in 1925, said that one of the First Amendment's restraints against the federal government became a restraint upon the states through the due process clause of the Fourteenth Amendment.) In 1939 Gitlow published *I Confess*, a lengthy history of communism in America, its international connections and its domination by Moscow. Now, in *The Whole of Their Lives: Communism in America—A Personal History and Intimate Portrayal of its Leaders* (New York and London, Charles Scribner's Sons, 1948; xvi, 387 pp. $3.50), he presents another analysis and history of the movement he helped to found and for which he went to prison. The documentary value of Gitlow's books is uneven. Where he discusses events in which he participated as a Com-

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munist leader, he gives a first-hand account which scholars are bound to consider even if they do not accept as fact all that he says. But when Gitlow, as happens often in *The Whole of Their Lives*, goes beyond his personal experiences and makes startling revelations about Communist spying, murders and political deals, many of his remarks become highly suspect because they are unsupported. The mere belief that such activities are perfectly reconcilable with what we already know about Communists is not enough to establish the veracity of Gitlow's assertions. This observation applies to other sections of the book too. Thus the author states (p. 254): "American communism owes its rise to prominence to the election of Roosevelt as President in 1932, to the organization of the Committee on Industrial Organization in 1935, to the recognition of the Soviet Union by the United States in 1933." It does not occur to Gitlow that these three events and the rise of communism in America might all have been the results of the same set of forces summarized by the words "economic crisis". In September of 1935, he claims, "it was already known in communist circles that negotiations were proceeding behind the scenes, between certain elements in the New Deal and representatives of the Communist party, which had for their objective a basis on which the communists could throw their support to the New Deal." While this reviewer places high value on Gitlow's testimony in general, he must point out that this assertion and Gitlow's attempts to justify it are vague and clumsy. Despite these excesses, however, which a discerning reader can easily spot, *The Whole of Their Lives* remains a valuable book for its evidence on the nature of the American Communist party and its followers. Perhaps the most interesting portions of the book are the brief but exciting biographies of working-class or Communist heroes like Louis C. Fraina, John Reed, Big Bill Haywood, Robert Minor, and others.—MORROE BERGER, Columbia University.

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